

# City Manager's Proposed Budget Message FY 2003-2004

(Revised for Adoption)\*

## March 1, 2003

\*Reflects changes made when adopted

by

City Council on April 8, 2003



March 1, 2003

The Honorable Mayor and Members of the City Council  
City Hall  
Fairfax, Virginia 22030

Dear Mayor and Members of the City Council:

I am pleased to submit the proposed FY 2003-2004 budget for the City of Fairfax. The annual budget is the city's primary financial management tool. The preparation of the annual budget is a multi-step process that occurs over several months.

The first step is a comprehensive review and assessment of city goals and objectives, followed by an analysis of the available means for accomplishing those goals and objectives. Finally a proposed budget is developed that best addresses the needs of the community within the available financial resources and according to city goals, guidelines and the financial policies adopted by the City Council. As the basis for our financial planning, these principles ensure our long-term fiscal stability.

The following budget message summarizes the budget, highlights its major components, reviews any significant changes and sets the stage for our deliberations. Our discussions regarding this budget will culminate with its planned adoption on April 8, 2003.

This year, at Council's request, we are expanding the opportunities for community discussion. In addition to two public hearings, two community outreach sessions are planned. I look forward to the budget review and consideration by the community and the Mayor and City Council.

Sincerely,

Robert L. Sisson  
City Manager

# Budget Message

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# Executive Summary

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# FY03-04 Adopted Budget Highlights\*

- **Expenditures for all funds** total \$111,411,943, an increase of 18.6 percent over FY02-03, mainly due to open space acquisitions (\$8,550,000)
- **General Fund revenues** are budgeted to equal General Fund Expenditures
- **General Fund expenditures** of \$78,901,112, an increase of 4.1 percent over FY02-03
- **General Fund revenues** of \$78,901,112, an increase of 4.1 percent over FY02-03
- **Capital Fund expenditures** for general fund supported projects of \$2,398,798, representing 3.0 percent of general fund expenditures. In addition, schools, historic properties and open space capital projects (\$12,683,000) funded by the general fund via debt financing
- **Proposed real estate tax rate of \$0.92 per \$100**, a decrease of 4 cents, which includes 3 cents for the **open space fund**
- Real estate residential **assessments** increased an average of 13.4 percent in 2003, excluding new construction (3.1 percent)
- **Assessed value** of all real property increased \$379,516,200 or 13.2 percent in 2003
- **One cent on the real property tax rate** is equivalent to approximately \$332,000
- **Personal property tax** rate remains at **\$3.29** per \$100
- **Cellular tax** of 10 percent on portion of utility charges for residents and businesses
- **Cigarette tax increased** from 30 cents to 50 cents per package
- **Market adjustment of 2.5 percent for employees** totaling \$513,398, recommended based on parity with surrounding jurisdictions
- **Water and Sewer** rates and connection fees remain **unchanged**
- **General Fund balance** at 12.6 percent of general fund expenditures

\* *Certain terms used in this document may not be familiar to the reader. A glossary containing definitions for your assistance is included at pp. A-80 through A-86*

# Economic Assumptions

The underlying economic assumptions in this budget are:

- **Increase** in overall **residential assessments** due to continuing high level of new construction as well as reassessments in existing housing
- Continued **low vacancy levels** and new retail construction resulting in **increased commercial assessments**
- **Continued** stable **regional economy**; no further downturn
- **No reduction in retail sales** in FY03-04 from currently estimated
- **No reduction in estimated personal property** revenue; stabilizing used car values and no reduction due to state actions
- **No further reduction in interest** earned on investments; current levels very low
- Very conservative estimates on **state funding**; **no reduction from proposed**
- **Stable/low unemployment**
- **Inflation rate of no more than 2-3 percent**, impacting city purchase of supplies, materials, contracts and utilities
- **No changes** by **state** in tax structure reducing or increasing **local revenues**
- **County contracts** for judicial, social services, fire and rescue, refuse disposal and schools to remain within projected **decrease of 2 percent** for non-school contracts and 6.0 percent increase for schools
- **City/county contract** renegotiations result in **no unanticipated increases**
- **No major boundary changes**

# Community Profile

## City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
Number of City Positions (FY 03/04 Adopted)	400.4

## Physiographic

<b>Land Area</b>	
Square Miles	6.34
Acres of Public Parks & Open Space	183
Paved – Lane Miles	169
Sidewalks	87

## **Utilities**

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	City of Fairfax
Sewer	City of Fairfax
Cable	COX Cable

## Economic Indicators

### **Largest Private Employers (July 2002)**

SunTrust Bank	450
Verizon Wireless	262
Fairfax Nursing Center	250
Ted Britt Ford	250

### **Largest Public Employers (July 2002)**

Federal Technology Services	425
City of Fairfax	396

## **City of Fairfax Employment**

	<u>2<sup>nd</sup> Qtr 01</u>	<u>2<sup>nd</sup> Qtr 02</u>	<u>% Change</u>
Construction	1215	1075	-11.5
Manufacturing	253	125	-50.4
Transportation, Communications	557	115	-79.3
Trade	5233	4123	-21.2
Finance, Insurance, Real Estate	1288	1370	+6.4
Services	7528	8937	+18.7
Government	1322	1394	+5.5
Information	*	776	
Other	187	112	-40.0

## **Unemployment Rate**

	<u>12/01</u>	<u>12/02</u>	<u>% Change</u>
City of Fairfax	0.5	1.6	+1.1
Virginia	3.6	3.6	0
Northern Virginia	2.7	2.6	-.1
U.S.	5.4	5.7	+3

## **Retail Sales (in thousands)**

	<u>4<sup>th</sup> Qtr 01</u>	<u>4<sup>th</sup> Qtr 02</u>	<u>% Change</u>
City of Fairfax	974,000	900,000	-7.4

## **Tourism**

	<u>12/01</u>	<u>12/02</u>	<u>% Change</u>
Number of Hotel/ Motel Rooms	578	578	0
Occupancy Rate	67.4%	66.2%	-1.8
Average Daily Rate	\$79	\$74	-6.5

## **Vacancy Rates**

	<u>4<sup>th</sup> Qtr 01</u>	<u>4<sup>th</sup> Qtr 02</u>	<u>% Change</u>
Office Space	3.0%	4.4%	+47
Retail Space	4.5%	2.0%	-56
Industrial	.005%	.01	+100

\*New category identified



**Taxes****Real Property Tax Rate**

FY 2004: \$.92 per \$100 assessed value

FY 2003: \$.96 per \$100 assessed value

FY 2004 Value of one-cent on the

Real Property Tax Rate      Approx. \$332,000

**Personal Property Tax Rate**

FY 2004: \$3.29 per \$100 assessed value

FY 2003: \$3.29 per \$100 assessed value

**City Finances****Bond Ratings**

Moody's Investors Service, Inc      Aa1

Standard &amp; Poor's      AA+

**Population**

2002 Estimate      22,500

2000 U.S. Census      21,498

1990 U.S. Census      19,622

**Households**

2002 Estimate      8,437

2000 U.S. Census      8,204

1990 U.S. Census      7,362

**Average Household Size**

2002 Estimate      2.6 persons

2000 U.S. Census      2.61 persons

**Age (2000 population)**

(1-19)      4,853

(20-34)      5,117

(35-64)      8,775

(64 +)      2,753

Median Age (2000)      36

Median Age (1990)      33

**Race and Ethnicity (2000 Census)**

White (Non-Hispanic)      72.9%

African American      5.1%

Hispanic (all races)      13.6%

Asian &amp; Pacific Islander      12.2%

American Indian and Alaskan Native      0.4%

Total\*      100%

\*Percentage column does not sum to the total shown due to rounding; U.S. Census data indicate net international migration for 1990 – 1998 as 9.0%.

Source: U.S. Census Bureau 2000 Census

**Median Household Income – 2002 Estimate**

City of Fairfax      \$ 73,198

Northern Virginia      76,344

2000 U.S. Census – City of Fairfax      67,642

**Registered Voters**

January 2003      13,845

**Housing****Housing Units – June, 2002**

Single-family Homes      5,971

Condominiums\*      906

Rental apartments (est.)      1,572

Total      8,459

\*Townhouse condos are counted as single-family homes.

**Housing Units by Occupancy**

	Owner	Renter
2000 U.S. Census	69.1%	30.9%

**Average Assessed Value (2002)\***

All Residential Units      \$ 247,532

Single-Family Homes      275,811

Condominiums\*\*      92,659

\*Includes new construction

\*\*Townhouse condos are counted as single-family homes.

**Average Market Rents**Efficiency      **2002**  
\$ 763

1-Bedroom Apartment      813

2-Bedroom Apartment      984

3-Bedroom Apartment      1,341

**Median Assessed Value of Homes and Condominiums (2002)**

Assessed Value	Units	Total Value	Median
Less than \$100,000	616	46,661,700	75,500
\$100,000--\$149,999	456	55,840,500	125,300
\$150,000--\$199,999	502	92,159,200	186,000
\$200,000--\$249,900	2383	531,049,700	220,800
\$250,000 and over	2930	979,040,800	294,800

Source: Real Estate Assessor

# Goal Setting and Guidelines

The 2020 Commission Report, completed in 1994, remains the city's guide for strategic planning for the future. The aging of the city's population, infrastructure, housing, public schools and business corridors all were identified as major issues that must be addressed for our community to continue to prosper and thrive. One of the important goals of the city's budget is

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## *Planning for the Year 2020*

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to continue to link the recommendations of the 2020 Commission Report with the adopted expenditures for FY03-04.

In 1998, City Council convened a Livability Task Force to build on the work of the 2020 Commission. The focus of the Livability Task Force was on neighborhood rejuvenation and community outreach. In the FY03-04 budget year, funding is included for a number of Task Force recommendations, as well as for the full set aside amount for the Open Space Acquisition fund established as a result of the November 2000 advisory referendum.

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## *Livability Task Force Initiatives and Open Space Initiative*

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## **Budget Development Objectives**

In developing this year's budget a number of objectives guided us throughout the decision-making process. Many have been on going for a number of years; some are more recent.

- Commitment to **exceptional services**
- Strong support and commitment of resources to **education** and **public safety**
- **Reinvestment** in **infrastructure**
- Funding for **neighborhood revitalization/community livability** programs
- Adherence to **prudent fiscal policies**
- Adequate **compensation and benefits** for employees
- Investment in **city facilities** and **programs**
- More resources committed to **historic properties and programs**
- New resources committed to **open space** preservation/acquisition

- **Investment in water and sewer** systems
- Use of **technological advances** to improve city services and programs

## **Council Adopted Budget Guidelines**

- No reduction in the quality of City services.  
*Maintains existing service level in all areas.*
- Projected revenues must equal or exceed proposed expenditures.  
*Current estimated revenues are sufficient to support current proposed expenditures.*
- Maintain a General Fund balance equal to at least 10 percent of the general fund expenditures in conformance with the City Council financial policy.  
*General Fund balance is 12.6 percent; cash reserves are not used toward budgeted operating expenses.*
- Maintain the General Fund CIP transfer at the City Council financial policy level of 5 percent of proposed expenditures.  
*Budgeted General Fund support of \$2,398,798, not including transfers to the Open Space and Old Town Service District funds or CIP projects funded with debt financing representing 3.0 percent of proposed expenditures.*
- No additional personnel unless it would result in a net reduction in anticipated city expenditures. As vacancies occur, all positions to be evaluated against current needs and priorities.  
*One new federally funded police position and two new fire positions offset by overtime savings; two full-time positions eliminated.*
- Provide a fair and affordable market adjustment for employees to retain parity with other local governments and if the economic environment allows.  
*Provides funding for 2.5 percent wage adjustment.*
- Insure appropriate level of funding is directed to fund City Council priorities as outlined in Council's adopted goals for 2002-2004:
  1. Preserve and protect the City of Fairfax's "small town atmosphere" by
    - a. Expanding opportunities for citizen involvement in community decision-making.

- b. Enhancing quality of life measures and amenities with continued emphasis on recommendations of the Livability Task Force.
  - c. Providing unsurpassed user-friendly, customer-focused business practices for all city operations.
- 2. Adopt a revised Comprehensive Plan that will reflect development goals that are sensitive to and appropriate for the size and scale of the community.
- 3. Finalize and implement current redevelopment and transportation projects:
  - a. Authorize selected developer(s) to proceed with the Downtown Redevelopment Project.
  - b. Lee Highway Corridor Master Plan
  - c. Northfax Gateway
  - d. Fairfax City Regional Library
  - e. George Mason Boulevard
- 4. Continue to pursue the recommendations of the 2020 Commission with specific emphasis on:
  - a. Developing a capital financing plan that is responsive to the School Board's Master Plan for school's renovation.
  - b. Adoption and implementation of the Water Treatment Plant Master Plan.
  - c. Determining future use of the John C. Wood facility site.
  - d. Adoption and implementation of the Blenheim Site Restoration Master Plan.
  - e. Senior citizen issues related to housing availability and tax relief.
  - f. Reduction of the impact of increasing traffic through the city.

*Funding included for economic development, city facilities, historic properties, schools, open space, and neighborhood improvements; additional studies underway.*

- Continue to pursue cost containment strategies.

*All programs reviewed annually for efficiency of operations.*

- Continue to seek additional funding through external sources.

*Pursuing grant funding to extend city efforts in historic preservation, police, fire and rescue, and land use planning.*

- Set water and sewer rates at a level sufficient to maintain an appropriate level of cash reserves and still fund necessary system improvements.

*Water and sewer rates and fees maintained at current level. Extensive system improvements scheduled for the next several years.*

- Implement Council agreed-upon green space acquisition; set-aside 3 cents on real estate tax rate.

*Budgeted funding to be added to set aside fund established in FY01-02.*

## **Financial Policies**

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the city, in April 2000, the City Council adopted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. In all cases, these policies have been adhered to in the preparation of the adopted FY 03-04 budget.

### **Budgeting Policies:**

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
  - a. The Mayor and City Council shall develop general guidelines for the budget and provide them to the City Manager by November 15.
  - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
  - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
  - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.

- e. The Mayor and City Council shall conduct a mid-point review of the implementation of the budget.
- 3. Budgeted current revenues must be greater than budgeted current expenditures.
  - a. Significant one-time revenues shall be used only for one-time expenditures.
  - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.
- 4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help insure adequate reinvestment in capital plant and equipment.
- 5. The City shall set utility rates for the Water and Sewer Funds that will insure industry-standard operation of the enterprise functions.

### **Reserve Policies:**

- 1. The target for the General Fund balance shall be, at minimum, 10 percent of General Fund expenditures and, as an upper limit, equal to 45 to 60 days of expenditures (12.5% to 16.7% of annual expenditures).

### **Debt Policies:**

- 1. Debt Service Targets
  - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
  - b. Outstanding Debt shall be less than 3 percent of assessed valuation.
- 2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

## **Revenue/Cash Management Policies:**

1. The City shall maintain an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue.
3. The City shall manage its cash in a manner designed to prevent the necessity of utilizing short-term borrowing to meet working capital needs.
4. Annual City revenues shall be projected by an objective and thorough analytical process.
5. The City shall deposit all funds within 24 hours of receipt.
6. Investment of City funds shall emphasize the preservation of principal with safety, liquidity and yield being the primary factors considered.

## **Accounting/Auditing and Financial Reporting Policies:**

1. The City shall take all necessary actions in order to continue receiving the Government Finance Officers Association awards for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

## **Budget Strategy**

Ensuring the long-term fiscal stability of the city is the most important issue in the budget. In light of continuing economic uncertainty and our current resource constraints, the adopted FY03-04 budget includes no service expansions or new programs. In fact, during the

### **Revenues and Expenses Examined Closely**

course of our discussions in the past weeks, we discussed possible changes in programs and service levels as we confronted both economic reality and the re-prioritization of city goals and programs. Particularly in light of current economic uncertainties, we realized the need to operate with a multi-year perspective that includes meaningful current and future

revenue and expenditure forecasts, as well as an accurate assessment of the impact of current fiscal decisions on future community fiscal stability.

The financial and operating strategies used to frame the FY03-04 budget incorporate a careful review of available funding sources and a thorough analysis of departmental requests. The adopted budget reflects our firm commitment to meet our budget development objectives within the limits of our means. By law, the budget must be balanced. Before we review individual expenditure and revenue categories, it is important to focus on the economy and its impact on our community and our revenues.



# Economic Overview

While the city's overall economy continues to grow, the growth is primarily in one sector – real estate values. Concern about the direction, the pace of future growth and recent trends in revenue collections dictate a cautious, conservative approach in projecting revenues. Negative adjustments in personal property and interest earnings have been necessary based on receipts to date. Sales tax revenue, while holding its own, is particularly vulnerable to sudden shifts in consumer spending patterns.

The City of Fairfax's economy is at once both affected by regional, state and federal patterns and somewhat insulated from them. The performance of many sectors has slowed because of the continuing national recession. The Northern Virginia region's economy, while still strong, has slowed considerably other than in real estate values. Federal and state indicators are weaker, particularly at the state level.

In terms of the impact of national factors, those primarily have an indirect effect, impacting business investment, job growth, employment and consumer spending. Though business growth in general has slowed, increased government procurement related to the war on terrorism positively impacts growth in the Northern Virginia region, positively impacting city residents and workers alike. On the other hand, high visibility corporate failures and concerns over possible war fuel uncertainty and undermine business investment and consumer confidence.

It long has been recognized that the Washington metropolitan area economy is different from that of other area economies. While not "recession proof", economists cite an economic structure of core industries that is different and less cyclically sensitive, dominated by federal spending and federal procurement. This core industry structure continues to protect the Washington area from the full force of recession. The city's unemployment rate consistently ranks among the lowest in the United States. Employment figures released in January 2003 show the first net increase in total jobs in a year. While the city was and continues to be affected by decreases in business traveler and tourist spending, this is somewhat compensated for by significant increases in federal spending.

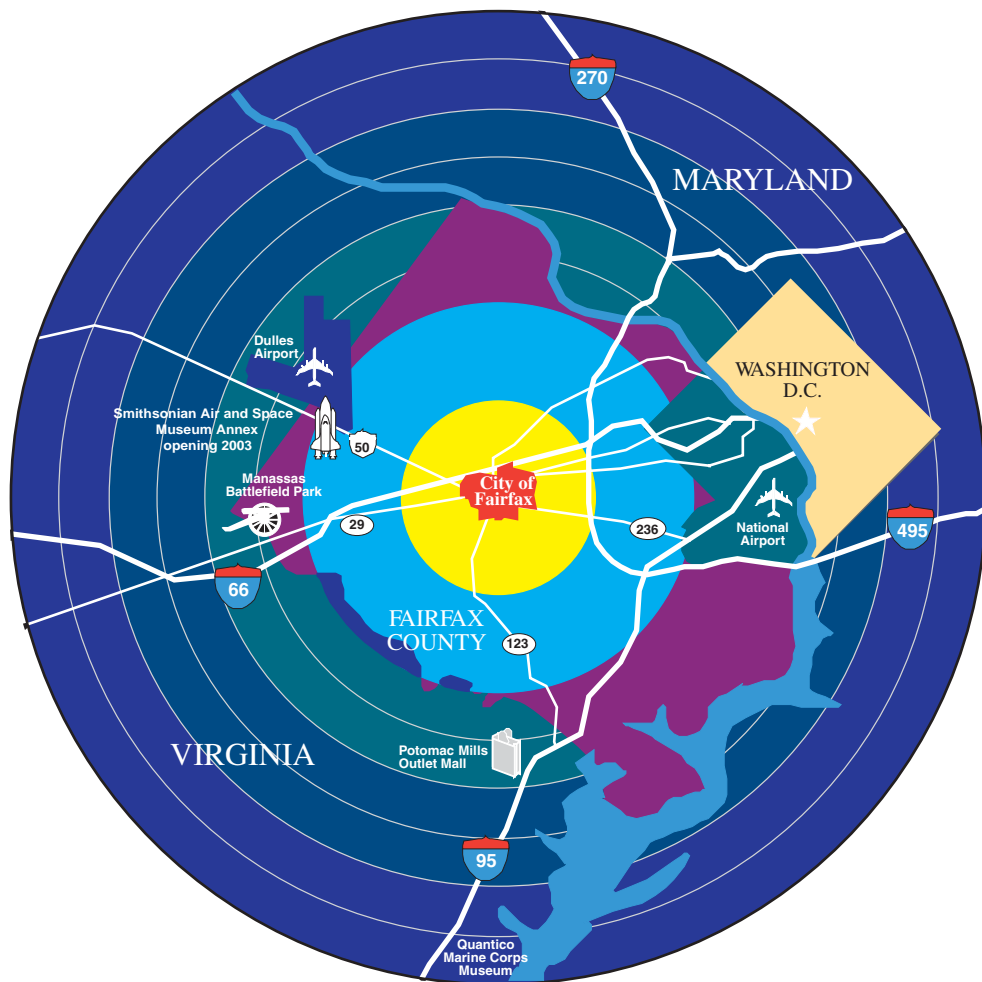
The city more directly is affected by significant reductions in state funds. State economic forecasts project a continuing shortfall in state revenue, a \$1 billion deficit is projected for 2004-2006. While in the coming year, projected direct aid to K-12 education has not been reduced, in

order to balance the state budget, localities will see reductions in aid in transportation, law enforcement, social services and revenue sharing, as well as cost shifting to localities for previously wholly- or partially-supported programs. The full impact of these reductions is not yet known.

The economy of the City of Fairfax is not growing as it did, but the economy remains strong.

- The city has an inventory in excess of 4 million square feet of office space with a vacancy rate of 4.4 percent, the lowest in Northern Virginia, and rental rates up to \$29 per square-foot
- Retail space totals over 3.3 million square feet with a vacancy rate of 2 percent, an all time low, and rents in the Lee Highway corridor have broken the \$40 per square-foot barrier; Restaurant sales have increased 4.4 percent
- Industrial space continues to be 100 percent occupied for all 400,000 square feet
- Taxable retail sales for the coming year should exceed the \$900 million level
- Information technology businesses continue to move into the city; current total is over 140

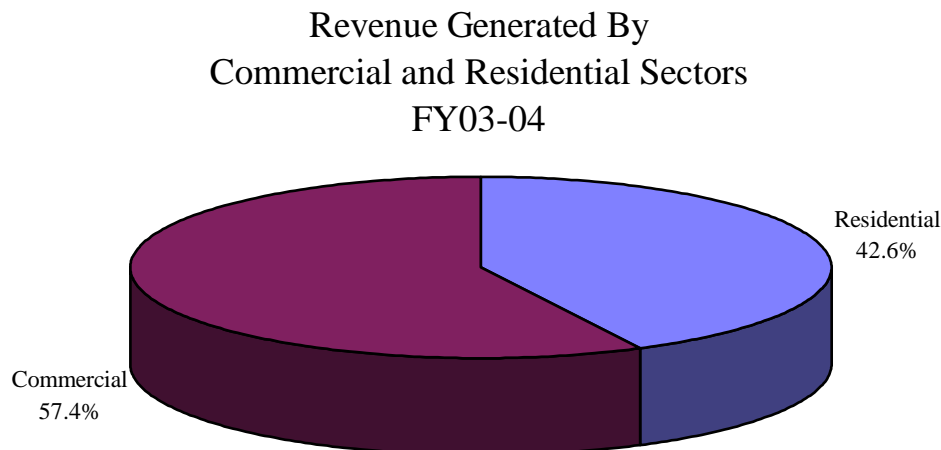
The continuing positive projected economic growth for the city is due to two major factors – the city’s location in the center of Fairfax County – the economic engine that is the primary force of the Washington region’s economy – and the continuing strong local housing market. Both of these factors merit closer examination.



The City of Fairfax is at the crossroads of Northern Virginia's major north/south and east/west highways, and within 30 minutes of both Dulles International and Reagan National Airports. Interstate 66 borders the city to the north and George Mason University is located at its southern border; Routes 123, 29, 50 and 236 all intersect along the city's central business corridor. This central location makes the city an ideal business location, and also results in significant traffic through the city.

Over 300,000 cars pass through the city daily, accounting for much of the commercial revenue generated in the city, particularly sales and meals taxes and, more indirectly, BPOL and commercial assessed values. Many of those not destined for the city but passing through will stop to shop. This non-residential tax base is why an unusually high percentage of the city's revenue – approximately 57.4 percent in FY03-04, significantly higher than that of some area jurisdictions, will be generated by the commercial sector. This allows the city to maintain the

lowest overall tax rate in Northern Virginia, but equally importantly, it spreads the tax burden out to non-residents.



The revenue increase the city is seeing this year is based almost entirely on the continuing increase in local housing values and continued new residential construction. The city's central location combined with low mortgage rates and a continuing tight supply of available houses have combined to increase real estate values by 12.6 percent in FY02-03 and by an additional 11.4 percent in FY03-04. The appreciation in home values and the accompanying increase in home equity combined with low mortgage rates spurred mortgage refinancings, which in turn helped boost consumer spending on remodelings, adding additional value.

Unlike previous economic downturns, this time the housing market has remained strong, and signs point to still increasing housing values. The strength of the local housing market, while certainly a positive economic indicator, also is a bit of a double-edged sword, as it illustrates the city's dependence on a major revenue source that has risen dramatically in the past, only to plunge sharply and recover at a very slow pace over a period of years. While rising housing values clearly is a positive, the impact on homeowners is also recognized.

Although the city's economic base is more diverse than that of some other jurisdictions, it still is tied to few options to turn to if those tax revenues fall. And, while the state continues to talk about revenue sharing of state income tax revenues, the reality is that for the foreseeable future, state revenue shortfalls make it highly unlikely the state will have revenue available to share with localities. If anything, the state has shown signs of redirecting local revenue to the state.

The overall revenue picture remains positive for the city. Our economy is diversified, a few non real estate related new sources of local revenue have been identified and, our local housing market remains strong and shows positive signs that that trend will continue. Despite the strength of the housing market, total city revenues for FY02-03 will fall short of budget by \$1,870,000. This shortfall is primarily due to depressed returns on investments (\$460,000) and reduced revenues from vehicle rental tax (\$1,450,000). FY03-04 revenues are projected to increase by an estimated 4.1 percent over FY02-03. However, the city will face serious challenges in the years ahead as pressures for additional spending outstrip the ability of current revenue sources.

# Cash Management

## **Fund Balance**

It is critically important to maintain an adequate fund balance. By financial policies recommended by both the city's financial advisors and our auditors, and adopted by the City Council, our goal is a fund balance equal to a minimum of 10 percent of our General Fund expenditures. In addition to being key to maintaining and/or potentially improving the city's bond rating, an adequate fund balance allows the city to cope with revenue shortfalls such as occurred this year with vehicle rental tax revenue losses, to pay for unbudgeted expenditures or unanticipated needs, or to pay for other one-time large expenditures.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks. In preparing annual budgets, projected revenues must equal or exceed expenditures; we must

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*Fund Balance Minimum  
Goal Of 10 Percent*

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live within our means and not rely on the fund balance to support recurring expenditures. In addition to being a sound budgeting practice, the interest earned on the fund balance through sound investing by the City Treasurer is a source of current revenue, \$655,000 in FY03-04, although historic low short-term interest rates have significantly reduced this revenue from previous years.

The adequacy of unreserved fund balance needs to be assessed based on a locality's specific circumstances. The 2002 Comprehensive Annual Financial Report from the city's auditor stated, "It has always been our recommendation that a government strive to be near the top of (that) range at fifteen percent of operating revenues..." The ten percent goal established by the city is a minimum goal; we should strive for a higher percentage.

### General Fund Balance -- Adopted Budget

	<b>Amount</b>	<b>Percent of General Fund Expenditures</b>
FY03-04*	\$ 9,954,003	12.6
FY02-03*	9,954,003	13.5
FY01-02	9,954,003	14.1
FY00-01	9,576,156	12.9
FY99-00	9,211,876	13.3
FY98-99	8,269,897	13.3
FY97-98	9,106,063	16.3
FY96-97	8,465,278	16.4

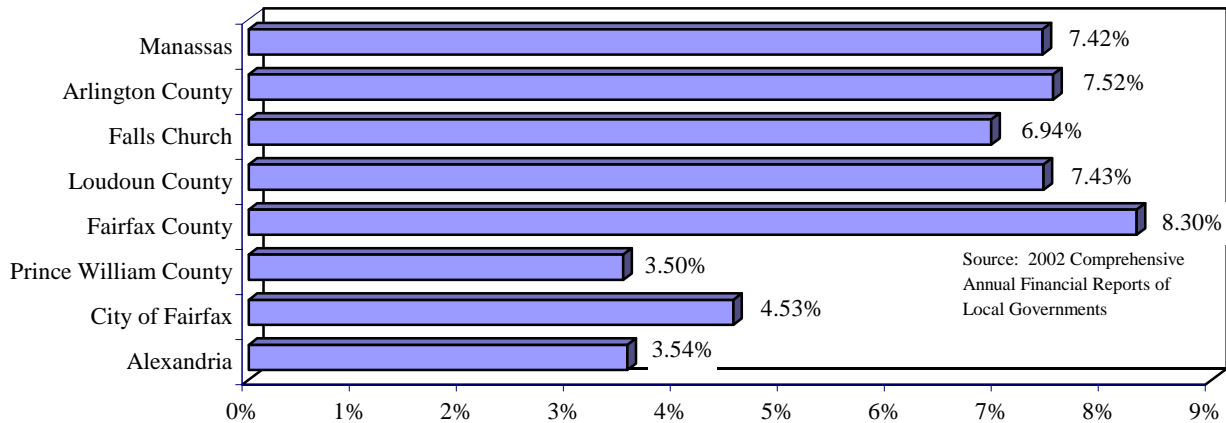
\* estimated

We are in very uncertain and somewhat volatile economic times. We recognize that tax rates should not rise merely to build up the fund balance. However, we are facing significantly increased expenditures in the coming years, particularly for schools. If we do not begin to prepare for that, the rise in taxes necessary to support expenditures such as the Lanier and Fairfax High renovations would be significant and potentially unacceptable to citizens. Understanding that we need to find a reasonable balance between the need for an adequate fund balance as well as a reasonable real estate tax rate, I am proposing that, once the annual audit is finalized for the fiscal year ending June 30, 2004, we review the amount in the fund balance and set aside and reserve an amount from it for anticipated future school bond debt service or school renovation expenses. If we discipline our expenditures in FY03-04 and do not erode the fund balance through unbudgeted expenses, and if revenues meet our current projections, we may be able to set aside an amount that, if we are able to repeat the process in future years, will better position the city to fund the potential school debt service without an excessive tax increase.

### **Debt Service**

The city currently is repaying bonds for projects to improve city schools, streets, municipal properties and storm drainage. The city uses bonds sparingly and carefully calculates its debt capacity. The city's bond rating for its current general obligation bonds is excellent: AA+ from Standard and Poor's Corporation and Aa1 from Moody's. Because of those high ratings, city bonds are desirable and carry favorable interest rates, and we must ensure that our budget actions allow us to retain those high ratings.

### Annualized Debt Service as a Percent of General Fund Expenditures

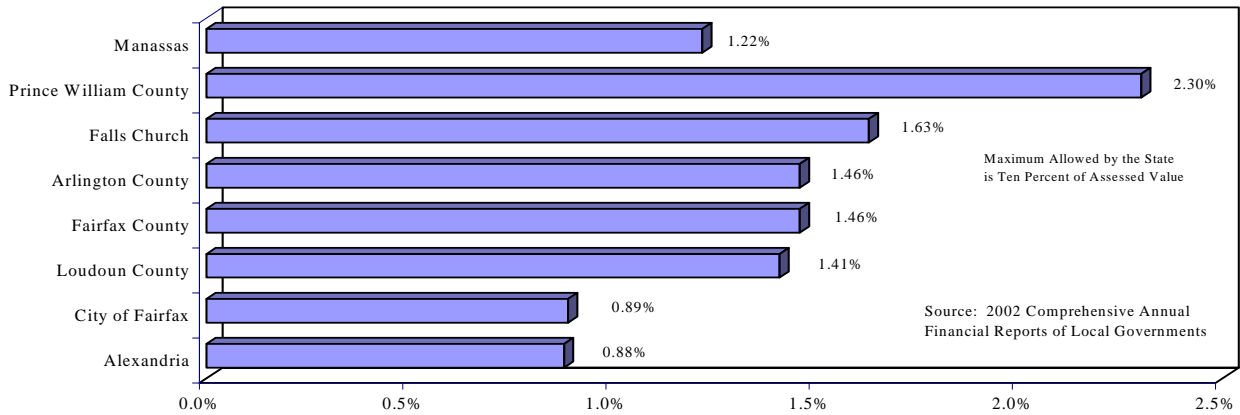


While the city's debt burden still is considered to be moderate – and remains low when compared to that of most Northern Virginia jurisdictions – it has risen and potentially will rise again with an anticipated school bond referendum in November 2004.

FY03-04 is the first fiscal year that includes the first full debt service for the 2002 facilities bond; two interest payments and one principle payment. FY02-03 included only one interest payment. Therefore bonded debt service costs are up \$976,656 in FY03-04 over FY02-03. This increase was anticipated and has increased the percentage of general fund expenditure allocated to repaying by 1.2 percent. We also continue to earn interest on the bond funds, but sharply lowered interest rates have significantly reduced this amount. In FY02-03, budgeted interest income was \$1,048,296; FY02-03 estimated revenues now are only \$589,080, a reduction of \$459,216, and proposed FY03-04 revenues from interest are only \$655,000. The city's financial advisors monitor all outstanding city debt every month to review our options for refinancing in order to reduce city debt costs. A spring 2003 refinancing will save \$100,000 in total debt in the Water Fund.



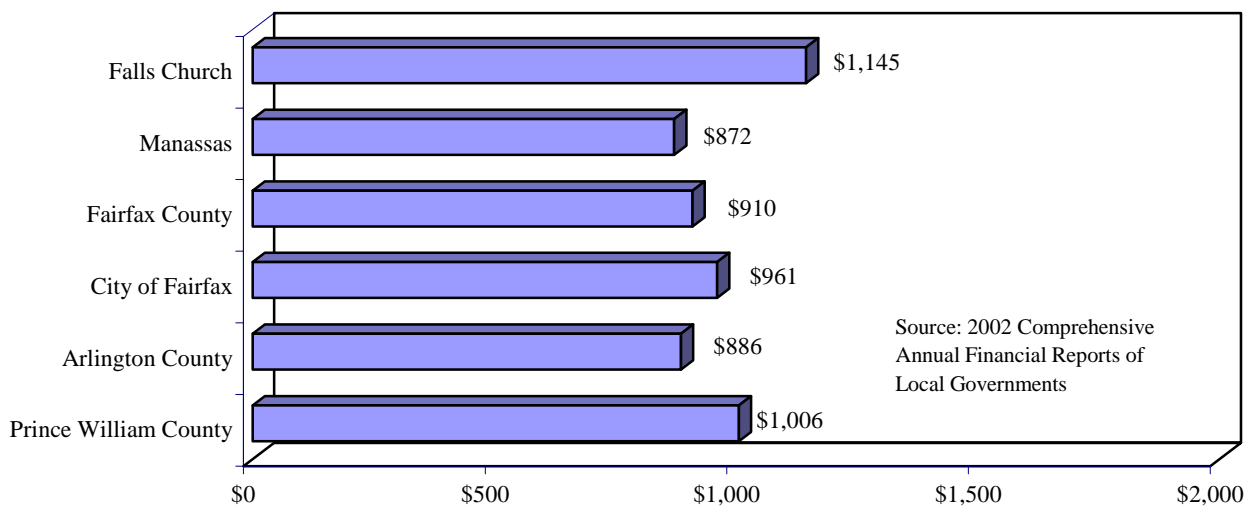
### Outstanding Debt as a Percent of Assessed Value\*



\* Excludes Enterprise Fund Debt

The city's education debt also compares very favorably with that of other area jurisdictions.

### Per Capita Education Debt



The city has several potential projects that will require some form of financing within the next year or two. Again, the city is fortunate because we have a relatively low debt burden; there is room to add debt and structure it to the city's advantage. The 2004 proposed school bond referendum for Lanier and Fairfax High represents the largest potential project. Additionally, in

the upcoming months we will be considering a line of credit or other type of financing to finance open space purchases, historic property renovations and architectural services for school renovations. The more rapid amortization offered by short-term or private financing in this current interest environment will allow the city to take advantage of current conditions and initiate these steps for these more long-term projects without the necessity of going to the bond market.

The city also continues to work on redevelopment projects in Old Town Fairfax and along the Lee Highway Corridor. Both projects represent some form of public/private partnerships that may require bonding in the future. Relocation of the current post office property located in Old Town Fairfax is underway. This property is the focal point in the redevelopment of Old Town Fairfax. Lee Highway Corridor redevelopment, especially in the area known as Northfax Gateway, has been slowed due in part to a push back in the state funding of road projects needed to support the redevelopment.

# FY03-04

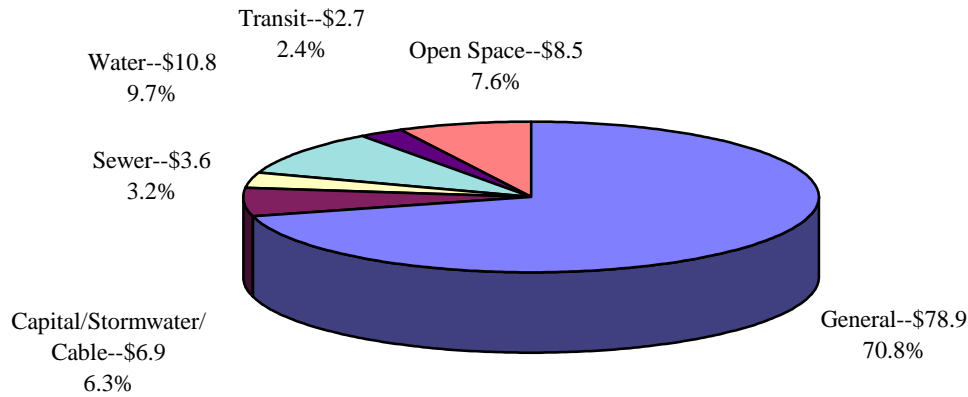
## Expenditure Overview

The primary responsibility in developing a budget is to balance revenue capacity with service requirements. The continuing uncertain economic picture and a desire to mitigate any increased tax burden on our citizens has resulted in a budget that maintains services and core programs which includes only minimal service enhancements and no new programs.

This is a time when the city needs to re-examine its priorities. Not everything we currently do can continue to be funded and, at the same time, have the city embark on very costly capital projects – particularly those related to schools, historic properties and open space – without either reducing other expenses or significantly increasing taxes. Our revenue growth within existing resources – even with the increase in cigarette and a new cellular tax as part of this year's budget – simply does not provide sufficient revenue for all of these projects.

Although some of the city's expenditures are discretionary in nature, many of the city's largest expenses either are fixed, or in the case of contract expenses that make up 46.7 percent of our budget, outside of our control. Except for these essentially fixed or contract costs, we actually are reducing our level of expenditures this year, essentially spending less on operating costs.

**Expenditures by Fund**  
**FY03-04**  
*in Millions*




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**Total FY03-04 Fund Expenditures = \$111,411,943**

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**Expenditure Summary**

Fund*	Adopted FY02-03	Adopted FY03-04	Percent Change
General	\$ 75,761,955	\$ 78,901,112	4.1
Stormwater	270,000	155,000	(42.6)
Capital	4,249,359	6,590,896	55.1
Cable	91,750	112,000	22.1
Sewer	3,545,523	3,628,348	2.3
Water	7,496,418	10,778,167	43.8
Transit	2,554,026	2,696,420	5.6
Open Space	0	8,550,000	100.0

\* excludes Old Town Service District funds as no expenditures appropriated to date.

The following chart and discussion briefly examines the major changes in the expenditures from last year's FY02-03 budget. These relatively few factors are responsible for the major changes in this year's budget.

## FY03-04 General Fund Changes

Revenues		Expenditures	
Real Estate Taxes	\$2,626,491	Schools	\$1,856,938
Personal Property Taxes	(624,249)	CIP Transfer	(726,503)
State Aid			
Vehicle Rental Taxes	(1,450,000)	Debt Service	1,526,942
Other State Aid	188,701		
Other Local Taxes		Transfer to/from Open Space	(743,441)
Sales	350,000		
BPOL	840,400		
Other	330,845		
Interest on Investments	(393,296)	Salaries and Fringe Benefits	530,620
Property Rental (Post Office)	(83,400)	Other Insurance	93,523
New or Enhanced Taxes and Fees		Market Adjustment	513,398
Cellular Tax	250,000	Other	87,680
Cigarette Tax	400,000		
Development Related Fees	36,100		
Fines	93,000		
Transfer from Other Fund	549,085		
Other	25,480		
<b>Total</b>	<b>\$3,139,157</b>	<b>Total</b>	<b>\$3,139,157</b>

## Schools

School costs represent the single largest expenditure category in the city's budget. This is not unique to the city; in fact, the percentage of the city's budget that goes to education

*School Costs Increase* actually is lower than that of some other area jurisdictions. Nevertheless, because of the percentage of the budget that it represents and because of continuing significant increases in the number of city students, general increase in tuition costs and capital spending requests, school costs continue to be the primary determining factor in the size of the city's budget and in the tax rate that must be levied to pay for those costs.

Altogether, education costs are up \$1.9 million over last year. The total cost for schools, \$32,347,552 less school state aid of \$4,834,676, is the equivalent of \$27,512,876, or 87 percent of the city's real estate tax income.

The school tuition contract for FY03-04 as proposed by the School Board is up \$1,530,300 over last year's budgeted contract. The total cost of the FY03-04 tuition contract is \$29,085,000; this is an 86.4 percent increase over FY93-94, ten years ago, when tuition contract costs were \$15,600,000. If as a result of budget deliberations currently underway in Fairfax County, additional funding is allocated to schools by the county, the city's contract costs will rise proportionately.

## **Open Space**

In November 2000, by a two-to-one majority, City voters approved an advisory referendum to increase the real estate tax rate by up to five cents a year for a maximum of five years to provide more money for open space acquisition. In FY01-02 and FY02-03, three cents was set aside, yielding approximately \$1,690,000. Funding at the three-cent level is included in this FY03-04 budget. Three cents will yield approximately \$994,500.

Earlier this year, Council purchased its first property through this fund, and initiated condemnation action on additional properties. While the exact purchase price of all properties is unknown at this time, estimates indicate the total costs will consume the total accumulated assets in the Open Space Fund, and likely will exceed the amount if additional funding is not maintained beyond the initial five years. In any case, purchase is likely to occur in advance of all funding being accumulated in the Open Space Fund. Because short term interest rates remain at historic lows, a combination of certificates of participation and/or a line of credit has been identified as the most cost effective method of financing these purchases. This will, of course, increase our short-term debt level, but is a reasonable and fiscally prudent action.

## **Debt Service**

As was anticipated, debt service costs have increased. Last year only one interest payment needed to be made on the 2002 facilities bond; in FY03-04, two full interest payments and one full principle payment are due. Altogether, this increased our debt service payments on the facilities bond by \$1,089,034.

Additional projects that will require financing in FY03-04 and that increase debt service include open space purchases and architectural design for renovation of Lanier and Fairfax High School. Although not included in numbers at the present time, the city is continuing its consideration of Old Town redevelopment, and some portion of eventual city expenditures related to this project may require some form of financing. And, other than the \$2.6 million for final architecture and design for schools, no funds are committed toward funding needed as a result of the anticipated 2004 bond referendum for school renovations.

## **Salaries and Benefits**

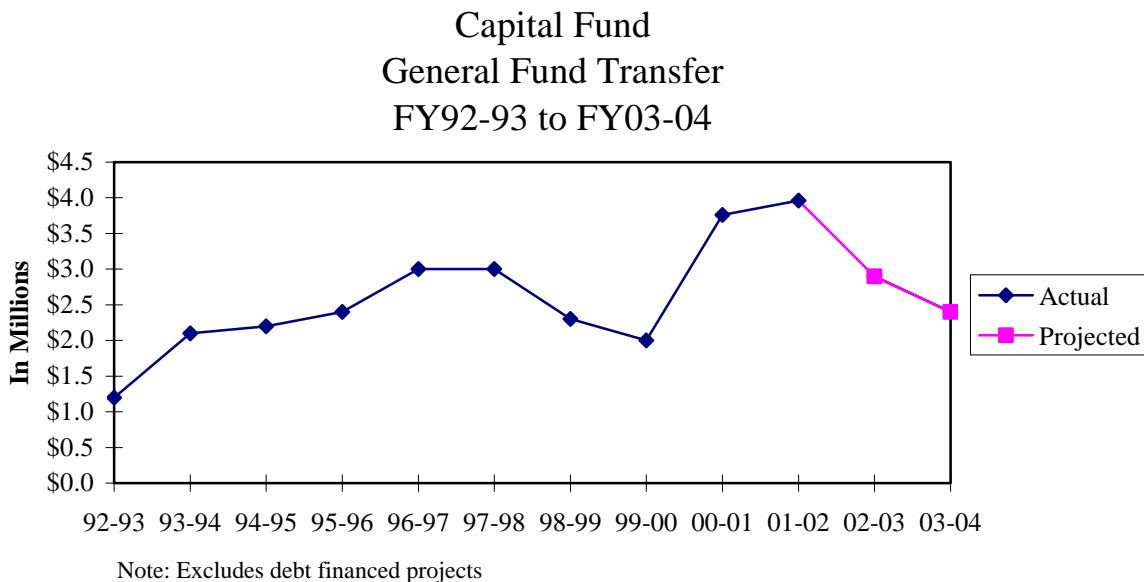
We must continue to invest in our workforce if we are to continue to deliver high quality services and operate efficiently and effectively. The city's compensation plan reflects Council's goal to provide fair and equitable compensation and benefits. Overall, total salary and benefit costs will rise by \$1,044,018, 4.3 percent of all salary and benefit costs. A significant portion of this increase is attributable to increased health benefit costs, which are shared by employees, as well as by a proposed wage adjustment. We are continuing to look at ways to reduce personnel through reorganization and as positions become vacant. New positions in FY03-04 are offset by federal funding or reduced overtime. A few reclassification actions were taken to maintain parity with surrounding jurisdictions and ensure the city can retain specialized personnel in selected positions. However, this has minimal effect on the overall cost of salaries, which are based on a combination of merit and longevity.

The 2.5 percent wage adjustment maintains the city's overall salary position and allows pay scales to remain competitive with the market. It is based on a formula that gives equal weight to the Employment Cost Index, wages and salaries (ECI) and to the Consumer Price Index (CPI). The ECI is the rate of inflation of wages and the CPI is the rate of inflation of consumer products and services.

We also are continuing to review the city's retirement system and will bring additional recommendations to Council shortly. Many Northern Virginia jurisdictions already have implemented or will be proposing significant improvements to their retirement benefits for both public safety and general government employees. In order to adequately compensate our employees and remain competitive with surrounding jurisdictions, it is important that we not allow retirement benefits to erode our overall position in the region.

## **Capital Improvement Program**

Capital program management covers three basic areas – constructing projects, maintaining them once they are built, and planning for the future. When budgets are limited, equipment purchases and large maintenance efforts may be delayed. These needs cannot be deferred indefinitely without long-term consequences. The city remains committed to ensuring adequate support for protection and enhancement of capital resources, and that is reflected in Council's adopted financial policy to transfer funds equal to five percent of the General Fund to the Capital Fund.



The CIP included in this proposed budget requires a general fund transfer of \$2,398,798 from the General Fund or 3.0 percent. The general fund will also service the debt financing of several CIP projects. Combined, the CIP projects funded by a general fund transfer and debt



financing exceed the financial policy guidelines of a transfer of not less than five percent that the City Council established. This is a significant increase from funds transferred in FY02-03, because the cost of the financed projects in FY04 total \$12.7 million and in FY02-03 Council chose to make a supplemental appropriation in FY01-02 to, in effect, provide advance funding for projects scheduled for funding in FY02-03.

In FY03-04, while we do maintain the overall level of General Fund support to the Capital Fund, in order to balance the budget many projects originally included in the Capital Improvements Program for FY03-04 presented to the City Council in January had to be postponed or reduced in scope. A total of \$3,145,372 in reductions was required in order to balance the city's revenue with its expenditures.

# General Fund Revenues

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# Overview

**R**evenue projections, for both FY02-03 and for FY03-04, generally are consistent with the estimates presented to the City Council in November during our mid-year budget review and goals setting session. Real estate revenues exceed FY02-03 projections and we anticipate still additional projected increases in FY03-04, although at a somewhat reduced rate.

A significantly slowing economy during the last year led to projected reduced revenues in a number of categories. For FY02-03, increases in real estate revenue as well as reductions in departmental budgets have been used to offset reduced revenues. In FY01-02 and FY02-03, the city absorbed a major and permanent reduction in vehicle rental tax (approximately \$790,000 in FY01-02 and \$1,450,000 in FY02-03) and in FY02-03 personal property tax revenues are now estimated at \$1,032,640 under those originally budgeted.

The loss in personal property tax revenue appears to be a combination of too optimistic a revenue forecast combined with significantly reduced values in used cars. The city's

sales and meals taxes continue to appear to be meeting revenue forecasts for FY02-03, but, especially in sales tax receipts, recent trends are cause for some concern. Sales tax revenues instantly react to changes in the economy, and these remain uncertain (and somewhat unstable) economic times.

In order to balance revenues with budgeted expenditures and to provide a two-cent decrease in the real estate tax rate, new revenue sources had to be developed. These increased revenues come from a variety of sources and are in line with those being proposed in or already adopted by neighboring jurisdictions.

In setting many of these rates, particularly for services or products where we compete with surrounding jurisdictions for consumer dollars, we carefully weigh the impact of any proposed rise. We already are too dependent on real estate taxes, and we must diversify our tax base to the extent allowed by very restrictive state policies. In an alarming trend, the 2003 General Assembly session saw attempts by the state either to reduce or cap a number of local revenue sources. Fiscal prudence and necessity dictated changes in some of those rates while that opportunity still existed.

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*General Fund Revenue  
Up 4.1 Percent*

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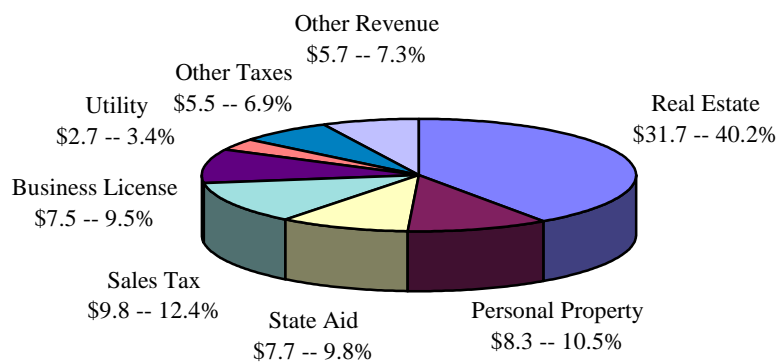
## FY03-04 Proposed Revenue Enhancements

Source	Amount
Cellular Tax	250,000
Cigarette Tax Increase (20 cents)	400,000
Development Fees	36,100
Fines	93,000

## General Fund Revenue Sources: FY 03-04

Total: \$78,901,112

*In Millions*



## Real Estate Tax

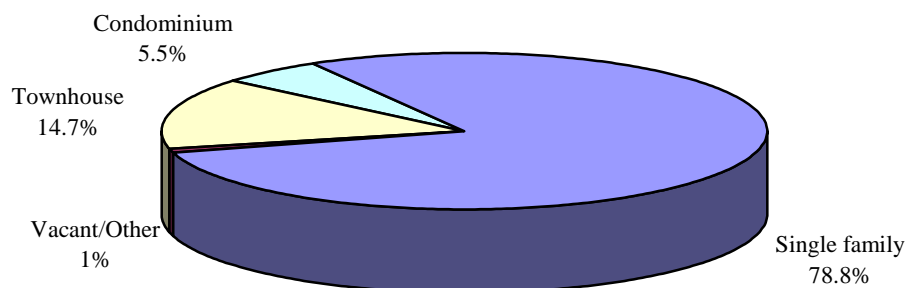
Real property tax revenues account for the largest category of revenue for the city — 40.4 percent. Because of the continuing high re-sale activity and new construction, we continue to experience significant increases in assessments, particularly in residential valuations. Housing values are rising faster than at any time in the last 12 years. Home sales volume remains strong, driven by high demand and a tight housing supply, as well as by lower mortgage costs.

Total real estate assessments are up 13.2 percent in 2003. The overall residential assessment total has increased by approximately 16.9 percent due to new construction valued at

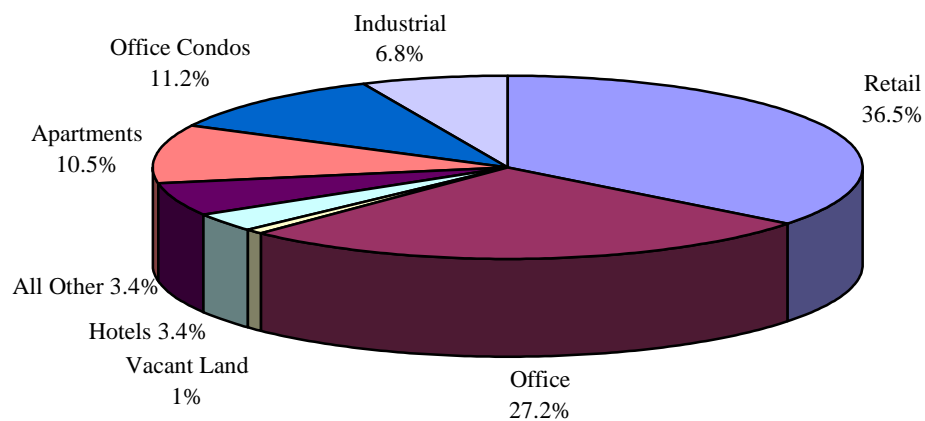
\$58.1 million and \$239.5 million in reassessments. Single-family residential assessments are up an average of 13.6 percent. Townhouse and condominium sales prices have risen dramatically; assessment increases average 16.2 percent and 22.5 percent, respectively.

Commercial assessments are increasing at a slower rate, but continue to increase. Commercial assessments have increased approximately 7.2 percent overall. The increase in commercial assessments is due to the relative continued low vacancy rate and increased rental rates, as well as new construction.

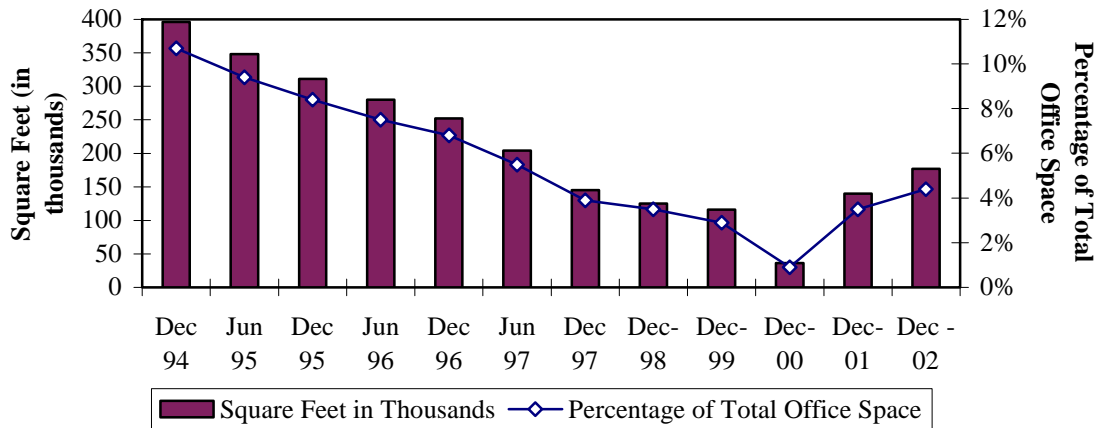
Residential Real Estate Tax Base (2003)



Commercial Real Estate Tax Base (2003)

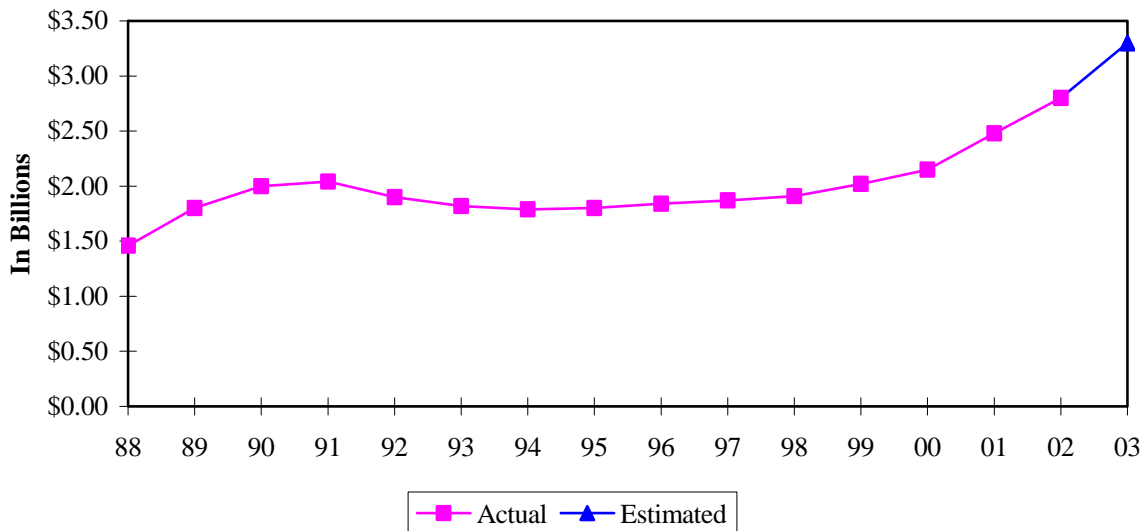


### Office Vacancies (1994 to 2002)



The 2003 total value of city residential and commercial properties before appeals — \$3,238,832,300 — exceeds last year's assessed value — \$2,859,316,100 — by \$379,516,200. As substantial new construction projects continue to be proposed, this value is expected to continue to increase, though at a slower pace. Real estate revenue, while positive in the near term, has been cyclical in the past. While no one can anticipate if or when that pattern may recur, given the city's dependence on this major revenue sector, it is prudent to keep it in mind in anticipating future expenditures.

### Total Taxable Property Value




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**2003 Total Taxable Property Value = \$3,238,832,300**

**2002 Total Taxable Property Value = \$2,859,316,100**

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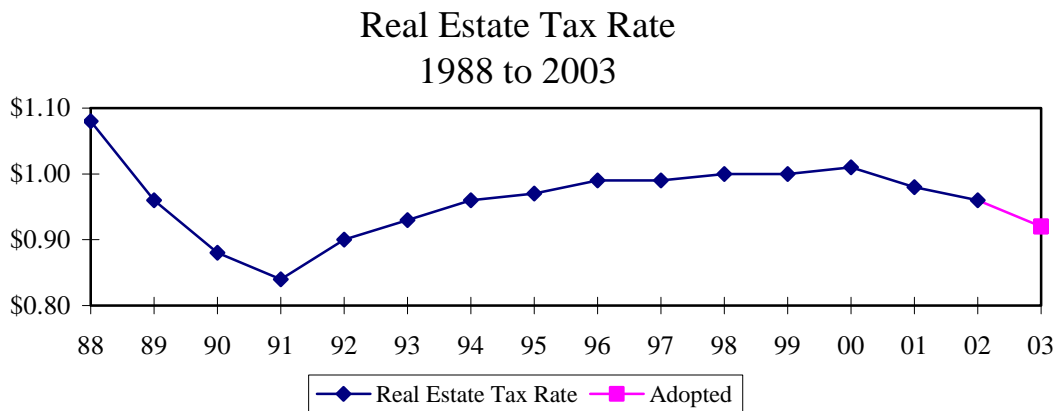
In order to fund the programs and projects contained in this budget, and in accordance with Council guidance for maintaining services and programs, and because of the increase in

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*Real Property Tax Rate  
Decreased four cents*

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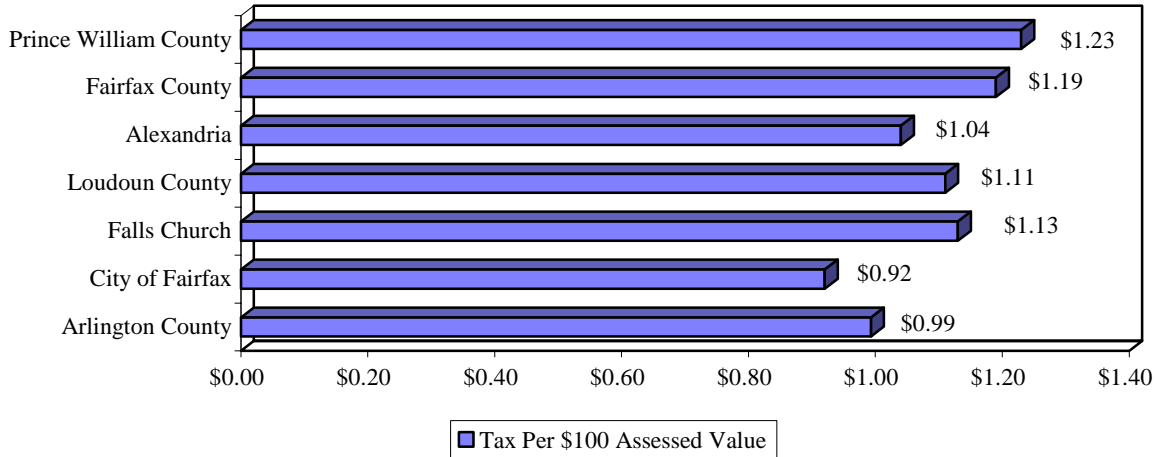
assessed value, the real estate tax will decrease by four cents per \$100 of assessed valuation, from \$.96 to \$.92, including three cents to be dedicated to the open space fund.



Assessed real estate taxes for FY03-04 are projected at \$31,698,839. Had we not proposed the two-cent tax rate increase, total real estate revenues for FY03-04 would be about \$664,000 less and June, 2003 real estate tax revenue would be down an additional \$317,000.

In comparing tax rates, it is important to keep in mind two factors often overlooked – levels of service vary from jurisdiction to jurisdiction and, for those residents of area towns, a town tax is levied in addition to the county tax. The City of Fairfax prides itself on its high level of services and low tax rate – the lowest in Northern Virginia. Two large towns in our immediate area – Vienna and Herndon – known for similar levels of community activity, levy real estate taxes of \$.30 and \$.32 cents per \$100 respectively, in addition to the Fairfax County tax, currently \$1.19 per \$100.

Area Jurisdiction Real Estate Tax Rates  
FY 03-04



Impact of Proposed Real Estate Tax Rate  
Increase on Property Owner's Tax Bill at Various Values

2002 Assessment	2002 Taxes at \$.96 per \$100	2003 Assessment <sup>1</sup>	2003 Taxes at \$.96 per \$100	2003 Taxes at \$.94 per \$100
\$ 240,000	\$ 2,304	\$ 271,680	\$ 2,608	\$ 2,553
360,000	3,456	407,520	3,912	3,831
480,000	4,608	543,360	5,216	5,108

<sup>1</sup> Average estimated increase of 13% used; each property is separately valued and may or may not see an increase of 13% in assessed value.

**1 cent on the Tax Rate = \$331,568**

**FY03-04 Real Estate Tax Revenue = \$31,698,839**

**FY02-03 Real Estate Tax Revenue = \$28,874,961**

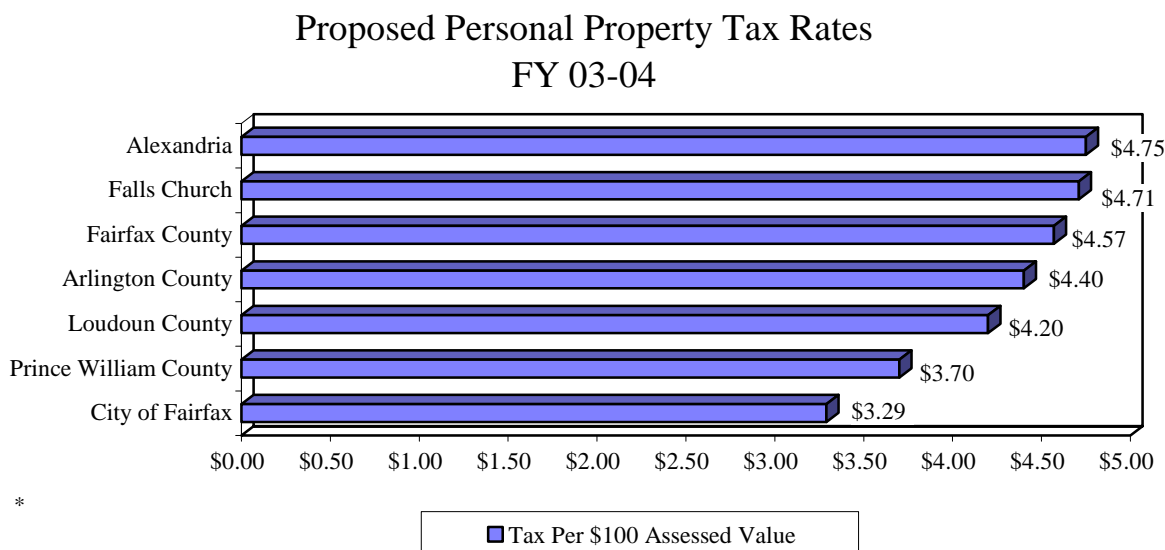


## Personal Property Tax

The city's personal property tax rate is significantly lower than that of surrounding jurisdictions. No increase is budgeted in the rate of \$3.29 per \$100 of assessed valuation. The personal property tax amounts to 10.5 percent of city revenue. As such, it is a significant revenue source for the city. Therefore, it is a cause for concern that after many years of increasing revenue from this source, we now see a decrease, attributed primarily to declining values in used cars and an over-optimistic revenue projection.

Projected FY02-03 revenues are significantly lower than the \$8,519,000 originally budgeted. FY02-03 revenues are now projected at only \$7,486,360. Based on those figures, projected revenues in this category in FY03-04 are now estimated at \$7,760,000.

At the current time, taxpayers are "reimbursed" by the state at a rate of 70 percent of the tax on up to the first \$20,000 of assessed value. While in most cases a disproportionate amount of money collected at local levels is disbursed to other areas of the state through means such as the composite index for education funding, in the case of personal property tax, a disproportionately larger amount is paid to Northern Virginia, because there are more and higher value cars in this area.



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**FY03-04 Personal Property Tax Revenue = \$7,760,000**

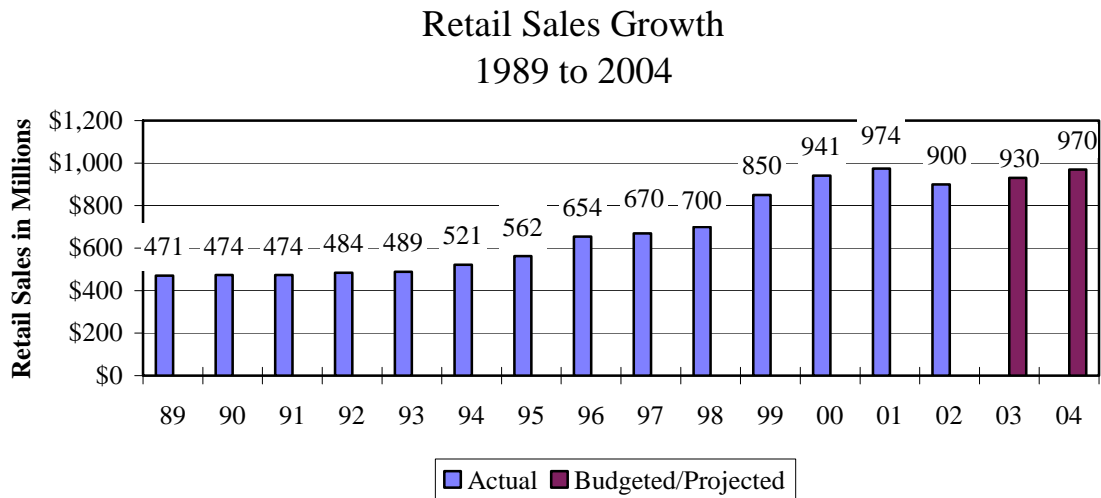
**FY02-03 Personal Property Tax Revenue = \$8,519,000**

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## Local Sales and Use Tax

The local sales and use tax is one of the most important and highest revenue generators for the city; local sales and use tax revenue accounts for 12.4 percent of all General Fund revenues. For a number of years, the city has been the highest generator of per capita sales and use tax revenue in the state.

Revenue in FY02-03 is projected to be \$9.4 million, 1.5 percent over the amount budgeted. Revenue for FY03-04 is projected at \$9.7 million. Over 40 percent of sales and use tax revenues are in the food group category. Retail developments completed or under development in FY02-03 and additional retail planned for FY03-04 will help keep retail sales in the city at a high level. Our neighboring jurisdictions are experiencing a drop in sales tax revenues, and we will monitor city revenues from this source very carefully so that, should a downward trend begin, we will be aware of it immediately and make adjustments accordingly.



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**FY03-04 Sales and Use Tax Revenue = \$9,750,000**

**FY02-03 Sales and Use Tax Revenue = \$9,300,000**

---

## **Meals Tax**

This has been a very stable source of revenue for the city, increasing slightly every year at current rates. Meals tax revenue in FY03-04 is projected at \$1,945,000. No increase is budgeted for FY 03-04 leaving the rate unchanged at 2 percent.

As the chart below indicates, several area jurisdictions also impose this tax and in most cases at a rate significantly higher than that of the City's.

Meals Tax Rates 2002

<b>City/County/Town</b>	<b>Percent</b>
City of Fairfax	2
Alexandria	3
Arlington	4
Fairfax Co.	N/A
Falls Church	4
Fredericksburg	3.5
Loudoun	N/A
Manassas	4
Manassas Park	4
Prince William	N/A
Spotsylvania	4
Stafford	4
Leesburg	3.5
Middleburg	3
Occoquan	1
Vienna	4
Warrenton	4

Source: Weldon Cooper Center

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**FY03-04 Meals Tax Revenue = \$1,945,000**

**FY02-03 Meals Tax Revenue = \$1,863,000**

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## **Transient Lodging Tax**

The city's lodging tax rate, four percent, is in the mid-range for Northern Virginia. We are projecting revenues of \$450,000 for FY03-04, \$20,000 lower than originally projected in the FY02-03 budget. This reflects the continuing downturn in hotel revenue throughout the Washington DC area. This revenue will not increase until the economy improves and additional hotel rooms become available as a result of city economic development efforts. Under the city's current charter, the lodging tax is at the maximum rate.

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**FY03-04 Lodging Tax Revenue = \$450,000**

**FY02-03 Lodging Tax Revenue = \$470,000**

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## **Utility Tax**

This has been a very stable source of revenue for the city. Revenue in FY03-04 is projected at \$2,730,000, an increase of \$279,900 over FY02-03. This increase is almost wholly due to a proposed extension of the utility tax to cell phones. The proposed rate of 10 percent is in line with that levied by other area jurisdictions.

The tax on cell phones had been accomplished through a minor revision to the city's existing utility ordinance on telephone land lines to extend the utility tax to cell phones; additional state authority was not needed. In addition to providing additional revenue, extension of the utility tax to cell phones will help maintain this revenue source; as cellular service has grown, the number of land lines is beginning to diminish.

## Cell Tax Rates 2002

City/County/Town	Percent
Fauquier	10% of 1 <sup>st</sup> \$30
Fredericksburg	10% of 1 <sup>st</sup> \$30
Loudoun	9% of 1 <sup>st</sup> \$30
Manassas Park	20% of 1 <sup>st</sup> \$15
Prince William	10% of 1 <sup>st</sup> \$30
Spotsylvania	10% of 1 <sup>st</sup> \$30
Stafford	10% of 1 <sup>st</sup> \$30
Ocquan	10% of 1 <sup>st</sup> \$15
Warrenton	10% of 1 <sup>st</sup> \$30

Source: Weldon Cooper Center

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**FY03-04 Utility Tax Revenue = \$2,730,000**

**FY02-03 Utility Tax Revenue = \$2,450,100**

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## State Aid

Revenue from the state represents approximately 9.8 percent of total general fund revenues. This year, as has been widely reported, the state is facing significant revenue shortfalls. This has resulted in reduced aid to localities in a variety of programs, particularly in social services, courts, libraries, funding for police, reimbursement for constitutional and other officers, as well as direct shifting of some program costs to localities.

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### *Direct State Aid Maintained*

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The city's share of state aid compared to that of other jurisdictions appears smaller because some of the amount of state aid received by the city in support of schools and the amount of social services is not shown because it is deducted from the amount of our contracts with Fairfax County. This influences the cost of city contracts for those services, particularly when the county makes a decision not to make up state cuts with local dollars, as is its stated intention at this time.

Because the state has not reduced K-12 education funding, the amount the city directly receives in state aid has not been reduced, and actually is showing a slight increase. In FY03-04, we are estimating a total amount of state aid of \$7,735,763, a decrease of \$1,261,299 over last

year's budgeted amount, primarily due to the reduction in the vehicle rental tax, which is categorized as state aid.

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**FY03-04 State Aid = \$7,735,763**

**FY02-03 State Aid = \$8,997,062**

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### **Business License Tax**

Business license taxes represent approximately 9.5 percent of general fund revenues. Business license tax revenue in FY03-04 is projected to total \$7,500,000, an increase of approximately 12.6 percent (\$840,400) over budgeted FY02-03 revenue. Actual business license receipts for FY02-03 now are projected to be \$300,400 above the amount budgeted in FY02-03. In estimating BPOL revenue for FY03-04, no rate changes have been proposed.

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**FY03-04 BPOL Revenue = \$7,500,000**

**FY02-03 BPOL Revenue = \$6,659,600**

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### **Cigarette Tax**

The FY03-04 budget includes an increase in the cigarette tax from 30 cents per package to 50 cents per package. The city's cigarette tax was last raised in 1999 when it increased from 25 cents to 30 cents. The recommended increase to 50 cents is in line with recent action by the City of Alexandria and may also be considered by other area localities. FY03-04 revenue, including the tax increase, is projected at \$977,300; in FY02-03 estimated revenues totaled \$566,000.

This additional tax revenue will help the city to finance significant additional capital expenditures in the coming years, as well as help bridge the current gap in projected FY03-04 revenues and expenditures. Currently, cities are not limited by any cap on the cigarette tax; only the counties of Arlington and Fairfax have the authority to tax cigarettes locally, and they are limited to five cents per pack. This year's General Assembly session saw significant legislation introduced that would have limited city authority regarding this tax. Though no action is likely

this year, proposals to limit local taxing authority on cigarettes will very likely be brought up again.

While the increased cigarette tax increase may change some shopping patterns, we do not anticipate an overly significant drop in actual numbers of sales. Additionally, apparently many retail chain stores set a price-per-pack regardless of jurisdiction, effectively spreading the tax burden around.

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**FY03-04 Cigarette Tax = \$977,300**

**FY02-03 Cigarette Tax = \$566,000**

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### **Vehicle Rental Tax**

Due to miscoding by the state, the city had been receiving significantly more revenue from the vehicle rental tax than it was entitled to receive. Additionally, in order to balance its own budget, the state is now retaining a portion of this local revenue. Altogether, this loss is equivalent to approximately 4.4 cents on the real estate tax rate.

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**FY03-04 Vehicle Rental Tax = \$250,000**

**FY02-03 Vehicle Rental Tax = \$1,700,000**

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# General Fund Expenditures

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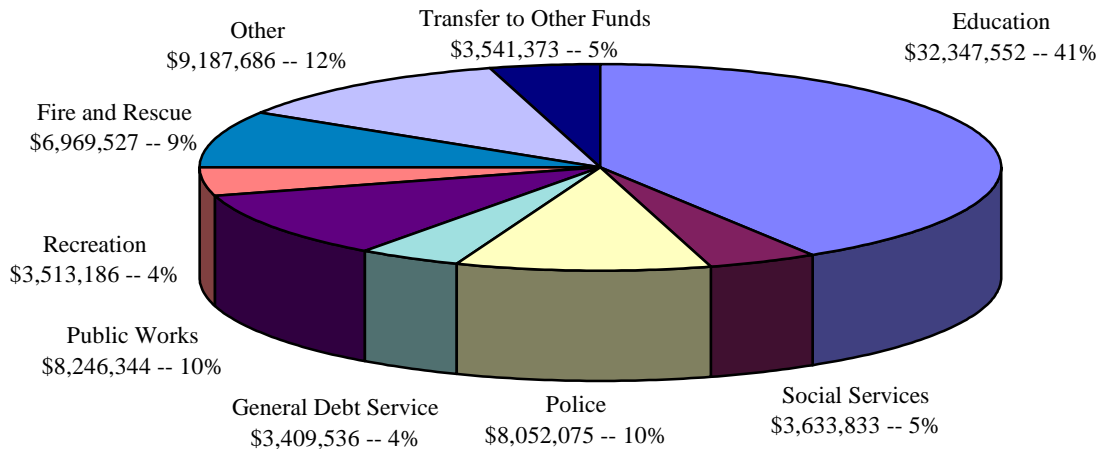
# Overview

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## GENERAL FUND MAJOR EXPENDITURE CATEGORIES TOTAL \$78,901,112

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General Fund Expenditures by Category  
FY03-04



## Education

Costs related to the operation of the city's schools account for \$32,347,552, by far the largest general fund expenditure (41 percent). Approximately 98 percent of these expenditures are not discretionary for the city, i.e. the tuition contract, and principal and interest payments on outstanding bond issues. While the costs for schools have increased dramatically in recent years, the 41 percent of the city's general fund dedicated to schools remains less than that of most of the surrounding jurisdictions, which range from 36.5 percent in Arlington County to 62 percent in Loudoun County. And, as do all Northern Virginia school systems, the city funds a far larger share of its school budget with local money

(85 percent local funding) than do school systems in other areas of the state (statewide average of 44 percent local funding).

The school tuition contract for FY03-04 is budgeted at \$29,085,000, an increase of \$1,530,300 (5.6 percent) over what was budgeted in FY02-03. We are contractually obligated to pay for instructional costs based on a per student formula.

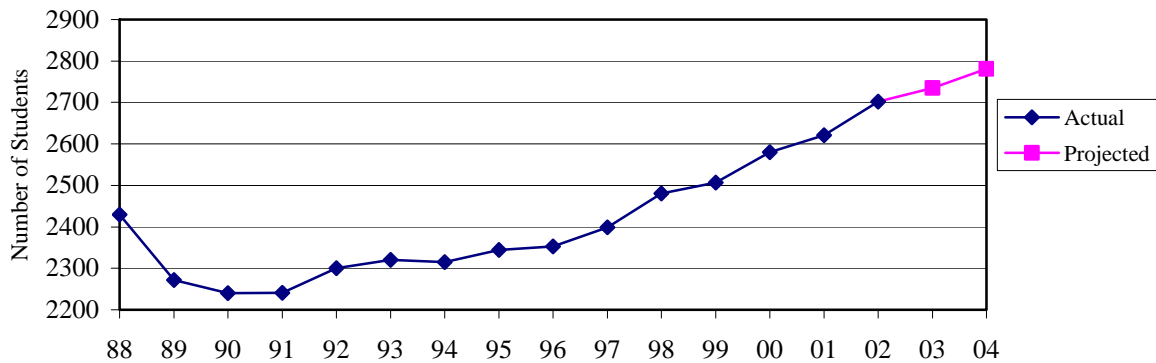
**City of Fairfax Tuition/Cost Per Pupil  
FY89-90 to FY03-04**

<b>Fiscal Year</b>	<b>Final Tuition Bill</b>	<b>Adjustments to Estimated Bill</b>	<b># of Students</b>	<b>Cost per Pupil</b>
03-04	\$ 29,207,982*		2,781*	\$ 10,503*
02-03	27,350,000*		2,735*	10,075*
01-02	25,337,421	\$ 422,579	2,702	9,377
00-01	23,965,003	150,550	2,621	9,143
99-00	22,533,885	33,885	2,580	8,734
98-99	20,351,513	498,487	2,507	8,118
97-98	19,593,688	1,293,688	2,481	7,897
96-97	17,915,653	322,189	2,399	7,468
95-96	16,561,902	(388,311)	2,353	7,039
94-95	16,502,570	504,211	2,344	7,040
93-94	15,537,630	(48,370)	2,315	6,712
92-93	4,824,589	(875,411)	2,320	6,390
91-92	15,397,042	(264,528)	2,300	6,694
90-91	15,289,709	(10,291)	2,241	6,823
89-90	14,446,404	(40,250)	2,241	6,446

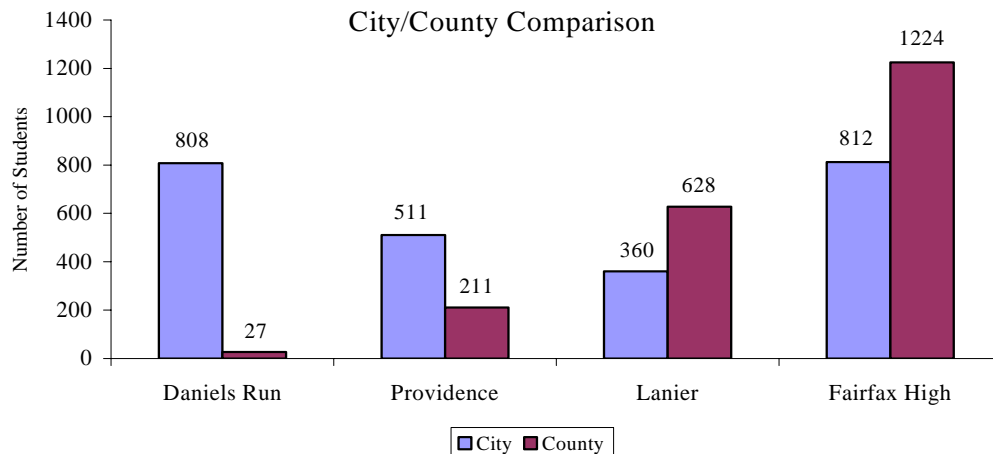
\*estimate

In addition to higher county costs, city student enrollments are increasing, and that significantly contributes to higher tuition contract costs. As new residential construction continues and as families move into existing housing being vacated by households without school-age children, the numbers of city children attending city schools is expected to continue to increase.

### Number of City-Resident Students Attending City Schools



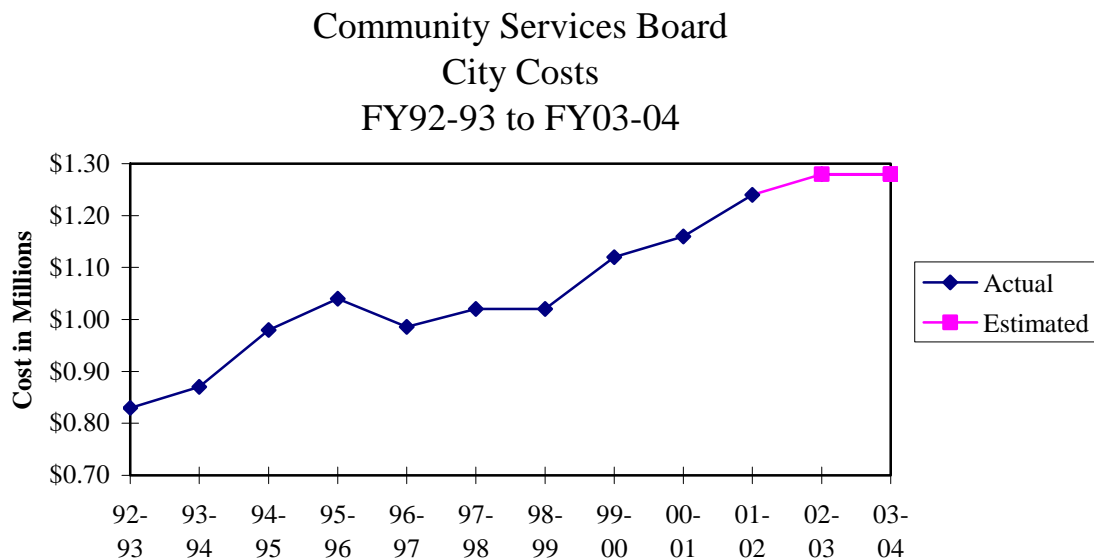
Of more immediate importance, the schools have requested that the city fund the architectural design of renovations to Lanier and Fairfax High during FY03-04, in advance of the anticipated November 2004 bond referendum on these projects. The current estimated cost for the drawings is \$2,625,000; financed with a loan from the City's Water Fund and then incorporated in the school renovation general obligation bond the following year. Funding has been included in the FY03-04 budget. Because of the significant numbers of county children attending Lanier and Fairfax High – over 60 percent county children in each – the city will be receiving approximately \$840,000 annually from the county which will defray some of the expense of renovation of these schools.



## **Community Services Board**

State funding for community services boards will be significantly reduced in the current budget year; the CSB is planning on a total reduction in state funds of approximately \$1,262,000. It is not anticipated that local funds will replace this loss in state revenues. How these cuts will be implemented is unknown at this time, but it appears likely that some programs may be markedly reduced or eliminated.

- FY03-04 funding is \$1,281,000; a very slight decrease from FY02-03
- Continues existing population-ratio funding formula
- City share is approximately 2.2 percent of locally funded CSB budget



## **Contract Services**

Expenses for county and regional service contracts make up 44 percent of the city's general fund. Based on Fairfax County budgeting guidelines, non-school contracts with Fairfax County have been estimated to increase an average of 3 percent over the current year's estimated billing.

The city/county review of all non-school county contracts is on going. That process has not resulted in significant changes to the way city costs for contractual services are determined.

In the area of social services, the majority of the programs are state-mandated. In budgeting for state-mandated social service, court and other programs, we estimate costs but, as we do with the school tuition contract, we are obligated to pay based on actual adjusted costs. These numbers vary widely, depending on the services rendered.

Regional agency contracts are projected to remain stable.

### Cost of Contract Services

#### FY02-03 and FY03-04 Comparison

	<b>FY02-03 Approved</b>	<b>FY03-04 Adopted</b>
<b>County School Tuition Contract</b>	\$ 27,554,700	\$ 29,085,000
<b>Other City-County Contracts</b>		
Library Services	745,293	767,652
Joint Court Service	112,046	129,594
Juvenile and Domestic Court	524,880	460,009
Jail and Custody Service	665,216	589,270
Fire & Rescue – Suppression	120,000	150,000
Refuse Disposal	350,000	370,000
Extension County Agent	9,618	9,907
Health Department	614,001	667,421
<b>Social Services</b>		
School-Age Child Care	378,809	334,750
State Mandated Programs	620,000	571,399
Day Care Regulation	9,000	9,000
Child Care Subsidy	95,000	111,572
<b>Regional Agencies</b>		
Community Services Board	1,281,505	1,281,008
Council of Governments	11,295	12,468
Health Systems Agency	2,311	2,311
Area Agency on Aging	45,852	45,852
Legal Services of NoVa	17,202	18,062
NOVA Community College	2,220	2,178
NoVa Regional Commission	8,927	8,982
NoVa Regional Park Authority	37,158	39,024
NoVa Transportation Comm.	5,143	5,973
Volunteer Center	1,000	1,200
Fastran	15,000	15,000
Community Health Network	52,550	56,704
Dental Clinic	1,500	1,500
<b>Total</b>	<b>\$ 33,280,226</b>	<b>\$ 34,745,836</b>

## **Public Works**

- Retains current level of service
- Increases expenditures by \$525,952 (6.8 percent)
- Most increases in supplies and contracts are due to increased fuel costs and other inflation factors
- Increased plantings, fleet maintenance and additional workload from new residences and special events continue to be absorbed
- Cost of additional photo red light camera offset by additional revenue (+ \$80,000)

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**FY03-04 Public Works = \$8,246,344**

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## **Police**

- Continues all police activities at current levels
- One new detective position for counter-terrorism; federally funded
- Minimal increases reflecting only slight adjustments for inflation
- Increased personnel costs are a result of normal salary increases
- Aggressively pursuing grant funding

---

**FY03-04 Police Department = \$8,052,075**

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## **Fire and Rescue Services**

- Continues all fire and rescue activities at current levels
- Two new positions to reduce overtime costs; will result in overall savings in personnel costs (net savings = \$215,000) from FY02-03 estimated
- Continues incentive award program to encourage volunteer program
- Funds new capital equipment for suppression and EMS

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**FY03-04 Fire and Rescue = \$6,969,527**

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## **Parks and Recreation**

- Maintains existing recreation programs and existing cost recovery ratios on fee-supported programs
- Across the board increase in fees for summer recreation programs; program costs increased; program to be self-supporting
- Costs for special events continue to increase
- Increased funds for maintenance of trails and athletic fields; costs up \$29,000 due to new field at Providence Park

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**FY03-04 Parks & Recreation = \$3,513,186**

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## **Historic Resources**

- Office of Historic Resources funding increased 330 percent in three years
- Increase in advertising to promote all historic properties
- Civil War weekend events expanded significantly
- Requested additional part time position and additional contract funding not included
- Significant capital projects to be funded through line of credit

---

**FY03-04 Historic Resources = \$337,503**

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## **Information Technology**

- Funds continuing expansion of web applications
- Continues but at slower rate replacement of microcomputers and printers
- Funds document management project, continues GIS development, implementation of city's INET fiber network and data integration project
- Discontinues funding for citizen use of City Tech Center; insufficient use by citizens and availability of computers at library

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**FY03-04 Information Technology = \$1,343,711**

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## **Compensation/Benefits/Insurance**

- Per Council guidelines to maintain parity, 2.5 percent market adjustment included and funding provided for modest pay plan modifications
- Health care costs increase substantially over the FY02-03 estimate despite cost containment measures and rebidding for carriers; proposed budget increases by 12 percent; employees' share also rises
- Exploring cost effectiveness of incentive program for employees to use outside health insurance coverage
- City insurance costs increase 15 percent; additional coverage needed for fire volunteers
- City's share of city retirement costs paid by earnings in retirement investments; state retirement contribution rate will remain the same
- City internal review of retirement system underway; most changes initially can be funded out of funds available in retirement accounts but may impact city costs in future

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**FY03-04 Health Insurance Premium = \$1,900,000**

**2.5 Percent Market Adjustment = \$513,398**

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# Capital Fund

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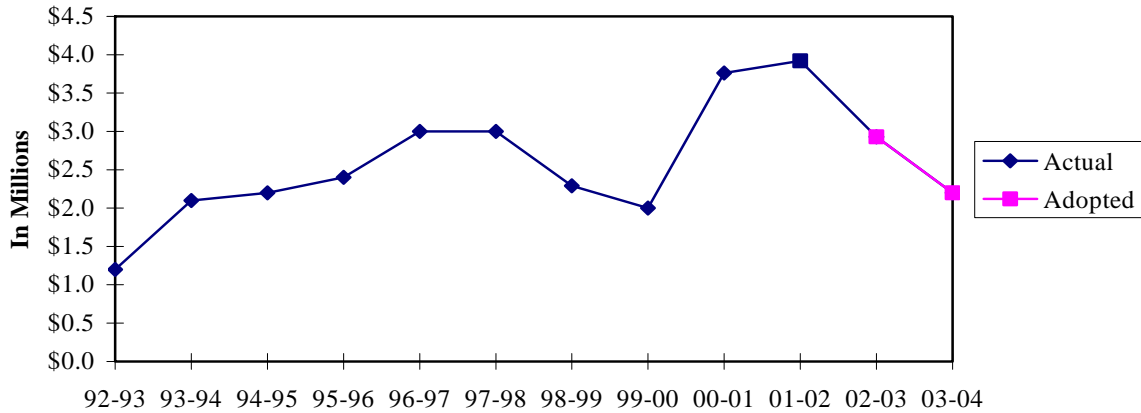
**T**he Capital Improvement Program for FY03-04, as proposed, totals \$17,681,298; of this total, the General Fund contributes \$2,398,798. The city's Capital Improvement Program is designed to protect the city's investments in capital and operating assets through timely and adequate maintenance and replacement of those assets. It also is a planning tool that links the city's long-range Comprehensive Plan with the physical development of the city. By identifying projects and needs several years into the future, the city accomplishes several objectives:

- Identified long-term objectives can be scheduled and met
- Adequate time is allowed to plan, design, acquire land and negotiate agreements
- Major purchases can be scheduled
- Coordination with the operating budget is maximized

While we must evaluate CIP projects in relation to the budget as a whole, giving lower priority to infrastructure projects – particularly in the area of maintenance – is a short-term solution with long-term consequences. It is important to protect all of the city's investments through timely and adequate maintenance and replacement of assets.

As the funding history of the CIP shown below illustrates, the city occasionally lowers its general fund commitment to the CIP in order to balance the budget in other areas. In adopting its financial policies, the City Council has set a goal of a transfer of at least five percent of General Fund expenditures to the Capital Fund. That goal is achieved in the adopted budget for FY03-04 with the inclusion of CIP projects supported by debt financing.

Capital Fund  
General Fund Transfer  
FY92-93 to FY01-02



Of the \$17,681,298 budgeted for FY03-04, \$2,398,798 will be funded from the general fund, a decrease of approximately \$535,561 from FY02-03. However, in addition to the FY03-04 transfer the general fund will fund CIP projects totaling \$12,683,040 with debt financing.

In addition to the General Fund, funding for the FY03-04 Capital Fund comes from utility funds, the federal and state governments, the stormwater fund, the open space fund, the cable capital equipment fund and debt financing.

Capital Fund  
FY02-03 and FY03-04 Comparison

	FY02-03	FY03-04	Percent Change
Schools	\$ 774,158	\$ 2,625,040	239 <sup>1</sup>
General Government	1,681,951	2,596,298	54
Recreation	160,000	8,755,000	5,372 <sup>2</sup>
Environment	2,460,820	2,262,460	(8)
Transportation	1,700,000	1,442,500	(15)
<b>Total</b>	<b>\$ 6,776,929</b>	<b>\$ 17,681,298</b>	<b>161</b>

<sup>1</sup> Architecture/Engineering

<sup>2</sup> Open Space Acquisition

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## *Implementing the Comprehensive Plan*

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The capital improvement projects budgeted for FY03-04 helps the city achieve the goals of the Comprehensive Plan in a number of areas.

**Economy:** Cultivate a diverse economy within the city that capitalizes on the city's assets, enhances its small-town character, and expands and strengthens the city's tax base.

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Brick Sidewalk Repair</li><li>• Curb, Gutter &amp; Sidewalk Repairs</li><li>• Planting and Beautification</li></ul> | <ul style="list-style-type: none"><li>• Dead-end Street Improvements</li><li>• Sidewalk Improvements</li></ul> |
|---|--|

**Environment:** Enhance the quality of life through policies and programs that respect the natural environment and protect the city's citizens from environmental hazards.

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Stream Restoration</li><li>• Northern Virginia Regional Park Authority</li></ul> | <ul style="list-style-type: none"><li>• Beaverdam Reservoir</li><li>• Neighborhood Drainage Projects</li></ul> |
|--|--|

**Public Facilities and Services:** Provide well-maintained facilities and superior services for city residents and businesses.

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Northern Virginia Community College</li><li>• Northern Virginia Regional Park Auth.</li><li>• Paving Repairs</li><li>• Cable TV Equipment</li><li>• Museum Maintenance</li><li>• Parks Playground Equipment</li><li>• Parks Parking Lots</li><li>• Sewer Creek Crossing Rehab</li><li>• Vehicle &amp; Equipment Replacement</li><li>• Storm Drainage Maintenance</li><li>• Water Main Asphalt Repairs</li><li>• Neighborhood Drainage Projects</li><li>• Brick Sidewalk Repair</li><li>• Curb, Gutter &amp; Sidewalk Repair</li><li>• Street Repaving</li><li>• Property Yard Maintenance</li><li>• Property Yard Improvements</li><li>• Bus Maintenance Equip. Replacement</li></ul> | <ul style="list-style-type: none"><li>• Sewer Lining</li><li>• Sewer Manhole Replacement</li><li>• Old Town Hall Maintenance</li><li>• Sewer Vehicle Replacement</li><li>• Beaverdam Reservoir</li><li>• Water Transmission Main Rehab</li><li>• Water Main Replacement</li><li>• Water Plant Equipment Replacement</li><li>• Water Plant Raw Water Station</li><li>• Water Plant Renovations</li><li>• Water Plant Solids Handling</li><li>• Water Tank Maintenance Program</li><li>• Water System Vehicle Replacement</li><li>• Vehicle &amp; Equipment Replacement</li><li>• Fire Defibrillators</li><li>• Police Information Technology</li></ul> |
|---|---|

**Community Appearance:** Pursue an attractive, distinctive image for the city.

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Museum Maintenance</li> <li>• Sidewalk Improvements</li> <li>• Brick Sidewalk Repair</li> <li>• Open Space Acquisition</li> </ul> | <ul style="list-style-type: none"> <li>• Curb, Gutter and Sidewalk Repairs</li> <li>• Planting and Beautification</li> <li>• Dead End Street Improvements</li> </ul> |
|--|--|

**Historic and Cultural Resources:** Protect and enhance the city's historic and cultural resources for present and future residents.

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Museum Maintenance</li> <li>• Grandma's Cottage</li> <li>• Fairfax History Exhibition</li> </ul> | <ul style="list-style-type: none"> <li>• Blenheim Improvements</li> <li>• Ratcliffe Cemetery</li> </ul> |
|---|---|

**Transportation:** Facilitate safe and convenient vehicular, pedestrian and bicycle circulation within the city, while minimizing the adverse impacts of through-traffic and automobile pollution.

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Dynamic Message Signs</li> <li>• Curb, Gutter and Sidewalk Repairs</li> <li>• Sidewalk Improvements</li> <li>• Neighborhood Traffic Control</li> <li>• Brick Sidewalk Repair</li> <li>• Refurbish Existing Traffic Signals/Signs</li> </ul> | <ul style="list-style-type: none"> <li>• Route 50 Bridge Testing</li> <li>• Old Lee Highway Study</li> <li>• Recessed Pavement Markers</li> <li>• Loop Detector Installation</li> <li>• Street Repaving</li> <li>• Roberts Road Improvements</li> </ul> |
|--|---|

### Sources of Funding FY03-04 Capital Fund

General Fund Transfer	\$ 2,398,798
General Fund Debt Financing	12,683,040
State and Federal	250,000
Utility Funds	2,082,460
Stormwater Fund	155,000
Cable Capital Grant	112,000
<b>Total</b>	<b>\$ 17,681,298</b>

## **Schools**

This CIP category provides funding for capital improvements to schools and school facilities. Projects are funded from the general fund.

Fairfax High Arch. Services	\$ 1,905,000
Lanier Arch. Services	720,040

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**FY03-04 Schools = \$2,625,040**

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## **General Government**

This CIP category provides funding for improvements to city buildings and new purchases or replacement of vehicles and equipment. Projects are funded from the general fund, the federal government, and the cable capital grant.

Blenheim Improvements (First Year)	\$ 1,250,000
Grandma's Cottage Improvements	50,000
Museum Maintenance	57,000
Fairfax History Exhibition	148,000
Ratcliffe Cemetery	60,000
Cable TV Equipment	112,000
Old Town Hall Maintenance	55,000
Property Yard Maintenance	100,000
Vehicle & Equipment Replacement	574,500
Police Vehicle Replacement	140,000
Police Information Technology	28,300
No.VA. Comm. College	21,498

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**FY03-04 General Government = \$2,596,298**

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## **Recreation**

This CIP category funds improvements to all parks, recreational facilities and open spaces; projects are funded from the general fund.

Open Space Acquisition	\$8,550,000
No.VA. Reg. Park Auth.	50,000
Planting & Beautification	35,000
Dead End Street Improvements	70,000
Park Equipment	50,000

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**FY03-04 Recreation = \$8,755,000**

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## **Environment**

This CIP category funds improvements to the city's water, sanitary sewer and stormwater systems. Projects are funded from the water, sewer, general and stormwater funds.

Storm Drainage Maintenance	\$ 25,000
Stream Restoration	155,000
Sewer Creek Crossing Rehab	30,000
Sewer Lining	141,400
Sewer Trunk Line Eval	150,000
Sewer Manhole Rehabilitation	32,060
Sewer Vehicle Replacement	60,000
Water Vehicle Replacement	45,000
Water Transmission Main Rehab.	50,000
Beaverdam Reservoir	100,000
Water Main Asphalt Repairs	125,000
Water Main Replacement	412,000
Water Plant Equip. Replacement	98,000
Water Plant Raw Water Pump Station	100,000
Water Plant Renovations	63,000
Water Plant Solids Handling	320,000
Water Tank Maintenance Program	356,000

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**FY03-04 Environment = \$2,262,460**

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## **Transportation**

This CIP category funds road and traffic signal improvements and maintenance. Projects are funded from federal and state funds and the general fund.

Brick Sidewalk Maintenance	\$ 45,000
Curb, Gutter & Sidewalk Maintenance	200,000
Dynamic Message Signs	250,000
Recessed Pavement Markers	25,000
Loop Detector Installation	25,000
Old Lee Highway Study	75,000
Rt. 50 Bridge Testing	30,000
Roberts Road Improvements	50,000
School Flasher System	50,000
Refurbish Existing Traffic Signals	40,000
Street Repaving Program	637,500
Neighborhood Traffic Control	15,000

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**FY03-04 Transportation = \$1,442,500**

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# Utility Enterprise Funds

Sewer Fund..... A-66

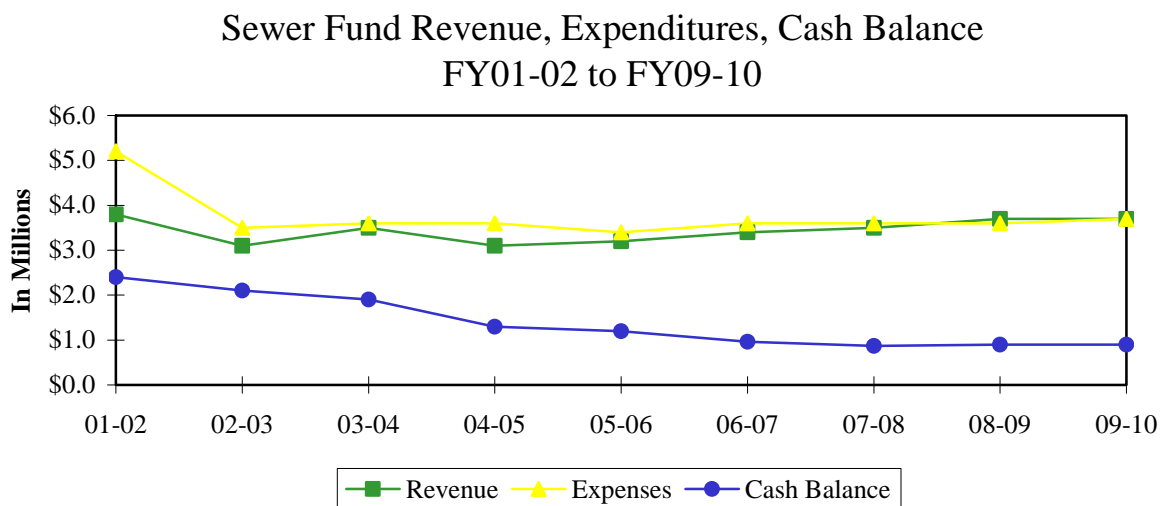
Water Fund.....A-67 thru A-68

# Sewer Fund

The city's sewer fund remains financially sound. Sewer cash reserves had been reduced due to the pay-off for the nitrogen removal upgrade at the sewer treatment plant, but are projected at \$1,963,056 in FY03-04 and should stabilize at approximately \$1,000,000 within the next few years. In terms of system expenditures, treatment costs are modestly increased, but capital costs have increased substantially.

While we anticipate sewer rate increases in the coming years, as connection fee revenue will be reduced when construction slows down, for FY03-04, we budgeted the following:

- No increase in sewer rate or connection fees; due to continued construction, revenues from connection fees increase
- Slight increase in sewage treatment costs
- CIP projects include continuation of sewer relining, rehabilitation of exposed sewer lines at stream crossings, and evaluation of trunk main system to assess rehabilitation needs
- Funding necessary for compliance with upcoming new federal mandates



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**FY03-04 Sewer Fund Revenues = \$3,525,000**

**FY03-04 Sewer Fund Expenditures = \$3,628,348**

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# Water Fund

**T**he city's water system will continue to face challenges due to its small size, limited revenue growth opportunities and age. Each year, in determining what our water rates should be, we review the projected revenue expenditure and cash balance of the water fund. Our twin goals are that system revenues equal expenditures and that a reasonable cash balance is maintained. Both of these factors are important in maintaining the city's favorable bond rating.

Retail sales have shown a steady increase in the last two years, due to higher than anticipated usage. Retail sales in FY03-04 are projected at \$4,655,325, and wholesale revenue increases from \$1,600,000 in FY02-03 to \$1,904,753. Regarding operating costs, the main increase is related to solids handling; completion of budgeted capital projects related to solids handling will significantly reduce the volume and related costs for disposal of residual solids generated from water plant operations.

The city has initiated a comprehensive review of its water treatment plant and reservoirs to develop a strategic plan for future operation and management of the system's assets. The

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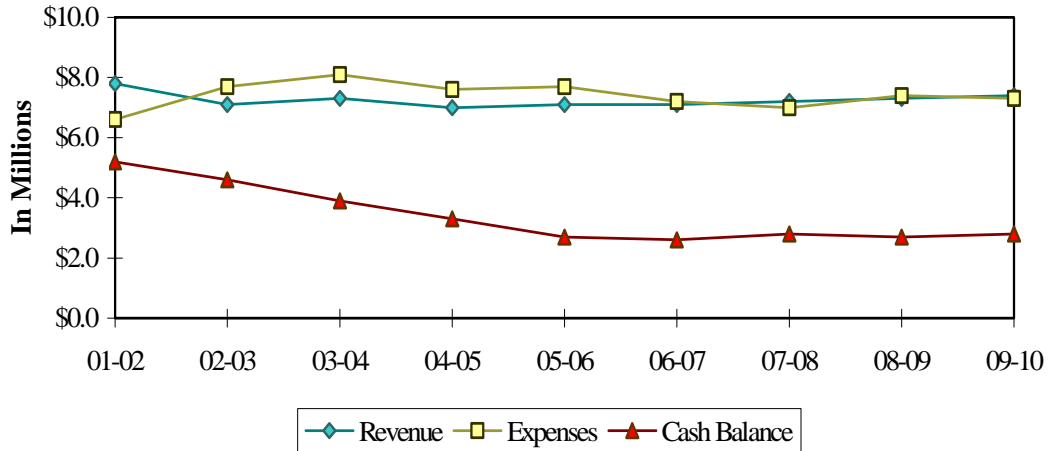
## *Water Rates Stable; City's Rates are Among Lowest in the Area*

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study will be completed later this spring. At that time, we will prepare a series of recommendations for Council's consideration. Included in the adopted FY03-04 budget are a number of capital projects, some of which are included in anticipation of the study's recommendations, and some which are necessary to ensure continuing safe and efficient operation of the water system. A total of \$1,669,000 in capital projects is budgeted for funding in FY03-04. The FY 03-04 budget includes the following:

- No increase in water rates; city rates are lower than most area jurisdictions and do not include any summer peak usage charge.
- No increase in connection fees; due to continued construction, fees increase to \$681,000.
- A loan to the school renovation fund in the amount of \$2,625,040 is for the financing of construction drawings for school renovations. The loan disbursement is not reflected in the following numbers or charts.

### Water Fund Revenue, Expenses, Cash Balance FY01-02 to FY09-10



### 2003 Residential Water/Sewer Bill Comparison (for 20,000 gallons per quarter)

<b>Jurisdiction</b>	<b>Cost</b>
Prince William County	\$ 137
Town of Leesburg	126
Loudoun County	120
Vienna	120
City of Manassas	117
Herndon	119
<b>City of Fairfax</b>	<b>106</b>
Fairfax County	92

Note: The above water systems other than the City of Fairfax also charge a higher Rate during summer/peak usage times; the city's water rate remains the same year round.

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**FY03-04 Water Fund Revenues = \$7,394,078**

**FY03-04 Water Fund Expenditures = \$8,153,127**

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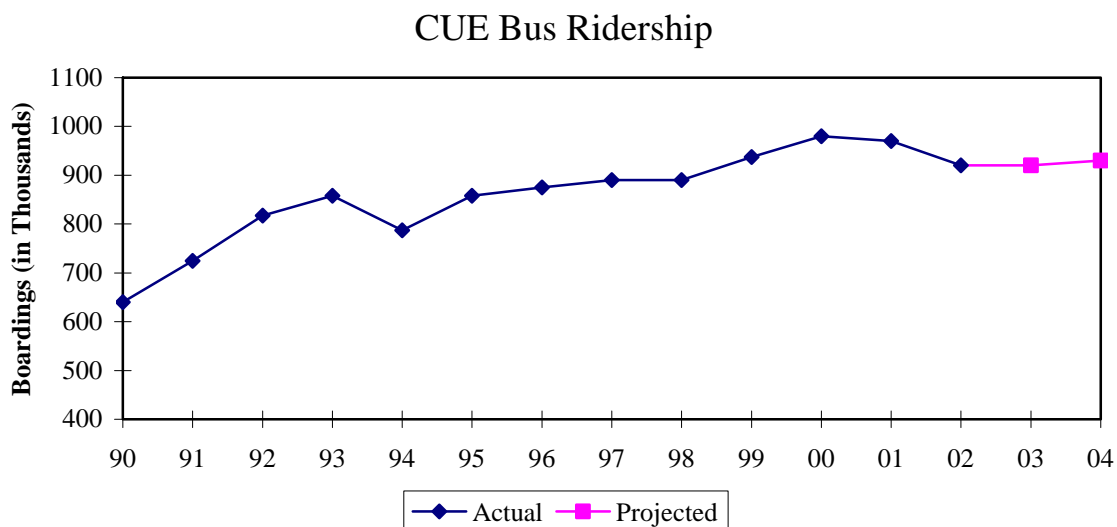


# Transit Fund

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for city and area residents and George Mason University (GMU) students throughout the city and from GMU and Metro. The city has operated the CUE system since 1985 and provides 11 buses on a fixed route system traveling 523,000 vehicle miles during 35,000 hours of operation each year.

Overall system costs have increased more rapidly than revenues, resulting in increasing general fund support. In FY03-04, the city will increase its transfer from funds in its account at the Northern Virginia Transportation Commission from \$896,403 in FY02-03 to \$1,096,403 in FY03-04. This will allow the city to more or less stabilize its general fund subsidy. In FY02-03, \$1,007,106 was budgeted to be transferred from the general fund to the transit fund. In FY03-04, we budgeted a general fund transfer of \$999,785.

The city has opened discussions with GMU to renegotiate the amount of subsidy provided by the university either through direct payment to the city or through increased fares. Our goal is to move the university payment closer to the actual cost of serving the university. Those discussions should be completed during the next several weeks.



## Revenues

- \$ 323,000 GMU, per contract
- \$1,096,403 NVTC, up \$200,000 from FY02-03
- \$ 240,432 Farebox based on fare of 50 cents
  - 920,000 ridership in 2002, down from 970,000 in 2001
  - 920,000 ridership projected for 2003
  - 930,000 ridership projected for 2004

## Expenses

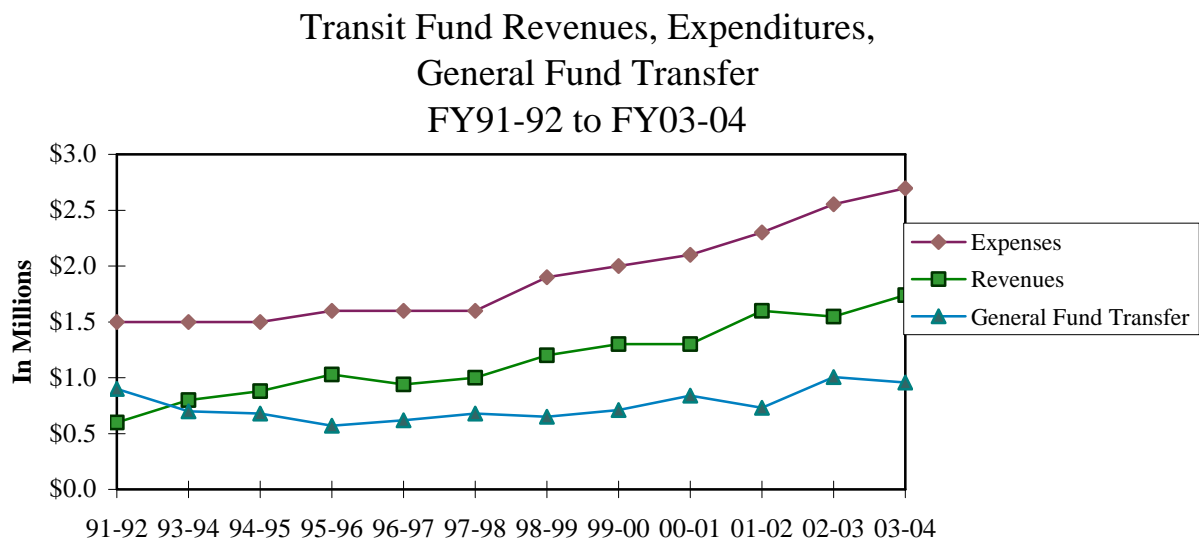
- Operating costs increasing due to increased personnel, insurance and fuel costs
- Reduced ridership increasing over-all required subsidy from general fund and NVTC
- Potential loss of farebox revenue due to fare increase, further increasing need for general fund support

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**FY03-04 Transit Fund Revenues = \$1,696,635**

**FY03-04 Transit Fund Expenditures = \$2,696,420**

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**FY03-04 General Fund Transfer = \$999,785**

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# Conclusion

**T**he adopted budget allows the city to meet the continuing high quality service demands of the community and address necessary infrastructure maintenance and improvement projects, while at the same time begin to plan for anticipated significant, large-scale project expenditures. Achieving this balanced budget has not been an easy task. While real estate revenues in particular continue to grow, and we have identified additional revenue sources for this budget year, the reality is that revenue growth falls short of our ever-increasing expenditure demands. School expenditures, in particular, can be expected to continue to grow, as will demands for everything from improved public facilities to rising costs for services to many special groups including children, families, seniors, and people of all ages with physical limitations. Much of our spending is non-discretionary in nature, and this problem is compounded by a state fiscal picture that remains bleak with additional cuts to local government always a possibility.

Difficult choices lie ahead. We need to ensure that we continue to follow the financial policies we have set for ourselves – living within our means, maintaining a strong fund balance, carefully choosing those new initiatives and programs we wish to offer our citizens. I am confident that we will continue delivering the quality public services that the city is known for in the most cost-effective and efficient manner, while at the same time securing our financial future through disciplined analysis and fiscally prudent choices.

## **Acknowledgments**

The budget is the product of an intensive effort by staff in all city departments. In particular I want to express my appreciation to David Hodgkins, Director of Finance, who has principal responsibility for the preparation of this document, and Vivian Baltz, Assistant City Manager. Others who contributed significantly to the preparation and printing include Loraine Bauer, Sherry Hamlor and Mary Lou Umbarger. Additional thanks go to each of the Department Directors, Constitutional Officers and every employee who participated in finalizing materials for Council's deliberation.

# Budget Information

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# Understanding the Budget

**T**he city's budget is the blueprint for the financial and policy decisions that the city will implement during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future; it lays the groundwork for what we hope will be our community's accomplishments in the future.

Within the pages of this document, you will find:

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• A fiscal plan</li><li>• Revenue and expenditure summaries</li><li>• Policy statement</li><li>• Goals and objectives</li><li>• An annual operating program</li></ul> | <ul style="list-style-type: none"><li>• A long range planning guide</li><li>• A management tool to ensure financial control</li><li>• Indicators to ensure accountability and evaluate performance</li></ul> |
|---|--|

## **Budget Preparation Process**

Throughout the year, revenues and expenditures are monitored to enable the city to measure actual income and expenses against those projected in the budget.

The formative stage of every budget begins in the fall. City Council sets guidelines for the budget in November. These guidelines provide the framework for developing the new budget. Requests from departments and city offices are reviewed and evaluated for priority and, based on estimated revenues, funding is requested by the City Manager for those programs and services required to maintain an essential level of service or provide for enhancements to programs as identified by City Council. Revenue estimates are derived from a review of current and projected economic indicators, current and proposed federal and state legislation, knowledge of future events in the city and review of historic trends. By law, local government budgets must be balanced; i.e. expenditures may not exceed revenues.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the Planning Commission for public hearing and

evaluation. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations and suggestions. The City Council holds a least one public hearing on the CIP and defers action until adoption of the operating and capital budgets in April. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (one year of the proposed CIP) is included in the operating budget. Both together become the proposed budget.

Once presented to Council, Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure that the budget is responsive to citizen needs. After careful deliberation, the proposed budget, as modified for additions and deletions, is adopted by City Council as the approved budget.

The budget, once approved, becomes a legally binding document. The budget can only be amended by the City Council after proper notice and a public hearing.

## **Review Schedule**

The following dates are scheduled for City Council review and approval of the FY03-04 budget. Additional meetings may be scheduled.

November 27, 2002	Initial Proposed CIP issued
December 2, 2002	Planning Commission Review of CIP
December 9, 2002	Planning Commission Public Hearing and Action on CIP
January 28, 2003	Public Hearing on CIP
March 4, 2003	Presentation of the Proposed Budget by the City Manager
March 11, 2003	Public Hearing
March 18, 2003	Work Session
March 19, 2003	Work Session
March 24, 2003	Budget Outreach Meeting
March 25, 2003	Public Hearing
March 31, 2003	Budget Outreach Meeting
April 8, 2003	Public Hearing and Budget Adoption (Operating and Capital)

## **Organization of the Budget**

The city's financial operations are budgeted and accounted for in a number of funds. A fund is a separate accounting unit. Separate funds that have been established by the city include the following:

**General Fund** — Used to account for all general operating expenditures and revenues, this is the city's largest fund. Revenues in the general fund primarily are from property taxes, sales tax, the business license tax and state aid.

**Capital Fund** — Each year, the city adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements that the city wishes to make. The Capital Fund is funded through a fund transfer from the general, water and sewer funds, state aid and bond issues. The current year CIP is adopted as part of the annual budget.

**Stormwater Fund** — The stormwater fund was established to carry out major stormwater projects. It is funded on an as-needed basis by one or two cents on the real estate rate, but has not received set-aside funding for several years. This is a separate Capital Fund.

**Cable Grant Fund** — This fund receives its revenue from a 3 percent cable television fee. The revenue can only be used for cable television equipment. This is a separate Capital Fund.

**Open Space Fund** – The open space fund was established to fund acquisition of open space and parkland in the city. It is funded on an annual basis by up to five cents on the real estate tax rate for five years. This is a separate Capital Fund.

**Old Town Service District Fund** – This fund was established to fund the costs of the proposed Old Town development projects. Old Town Service District special assessment taxes are being transferred into this fund in accordance with City Council Ordinance. This is a separate Capital Fund.

**Utility Funds** — Sewer and water services are accounted for in the utility funds. The sewer fund and water fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

**Transit Fund** — The transit fund is used to account for operations of the city's CUE bus. While set up as an enterprise fund, a transfer of money from the general fund into the transit fund covers a portion of the expenses of this fund.

The budgets of the general and capital funds (including Stormwater, Open Space, Old Town Service District and Cable Grant) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the utility funds and transit fund utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is

incurred. The budget bases of accounting do not differ from those used for financial reporting (all funds).



# Glossary

**Accrual Basis of Accounting** – a method of accounting that recognizes the financial effect of transactions, events and inter-fund activities when they occur, regardless of the timing of related cash flows.

**Adopted Budget** – the final operating and capital budget approved by the City Council after public hearings and amendments to the proposed budget, if applicable; becomes legal guidance to the City management and departments for spending levels.

**Advisory Referendum** – a measure voted on by the general public in an election; refers to a specific question posed on a ballot which is non-binding and used to provide guidance to the elected representatives.

**ALS** – advanced life support.

**Appropriation** – an authorization made by the City Council that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are granted for a one-year period.

**Assessed Value** – the fair market value placed upon real and personal property by the City as the basis for levying property taxes.

**Assessment/Sales Ratio** – assessed value for each sale of real property divided by its selling price; used to determine if real property is assessed within a reasonable range of fair market value. The Commonwealth of Virginia requires that real property be assessed at 100% of fair market value. An acceptable assessment/sales ratio percentage is 70% or higher.

**Basis of Accounting** – the timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes.

**Blenheim** – generally refers to the 12-acre property and house (c. 1858) purchased by the City for historic preservation and possible development of a museum/interpretive center; Blenheim is listed on the National Register of Historic Places and significant because it contains the nation's largest and best-preserved collection of Civil War soldier graffiti.

**BLS** – basic life support.

**Bond Debt Instrument** – a written promise to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal. Bonds are typically used for long-term debt to pay for specific capital expenditures.

**Bond Ratings** – a rating of quality given on any given bond offering as determined by an independent agency in the business of rating such offerings.

**BPOL Tax** – business license or gross receipts tax, this item taxes the total revenues of a business.

**Budget** – a plan of financial operation including an estimate of proposed means of financing them (revenue estimates). The term also sometimes is used to denote the officially approved expenditure ceilings under which the City and its departments operate.

**Budget Calendar** – the schedule of key dates or milestones that the City follows in the preparation and adoption of the budget.

**BZA** – Board of Zoning Appeals.

**Capital Improvement Plan (CIP)** – a five-year plan of proposed capital expenditures for long-term improvements to the City’s facilities including water, sewer, transit and schools; identifies each project and source of funding.

**Cityscene** – A monthly report to the Citizens of the City of Fairfax written and mailed by the City Community Relations Department; the *Cityscene* includes articles of interest, notices of public meetings, minutes of public meetings and other information pertinent to the citizens of the City of Fairfax.

**Coefficient of Dispersion** – represents the mean percentage deviation from a median.

**Comprehensive Annual Financial Report (CAFR)** – the annual report that represents a locality’s financial activities and contains the independent auditor’s reports on compliance with laws, regulations and internal controls over financial reporting based on an audit of financial statements performed in accordance with “Government Auditing Standards.”

**COG** – Washington metropolitan council of governments – an independent, nonprofit association of 17 member governments located in the Washington metropolitan region.

**Constitutional Officers** – officials elected to four-year terms of office who are authorized by the Constitution of Virginia to head City departments, the Treasurer and Commissioner of Revenue in the City.

**Consumer Price Index (CPI)** – a measure, calculated by the United States Department of Labor, commonly used to indicate the rate of inflation.

**Contingency** – a budgetary reserve set aside for emergencies or unforeseen expenditures for which no other budget exists.

**CPR** – cardio-pulmonary resuscitation.

**CriS Kiosk** – An interactive multimedia kiosk including information about government services and regional attractions. The kiosk, named CRIS (Community Resident Information System), is a cooperative project with Fairfax County. Kiosks are located in area government offices, shopping malls and libraries.

**CSA** – comprehensive services act.

**CUE Bus** – City/University/Energy Saver bus system – provides bus service to city residents and George Mason University (GMU) students.

**CY** – Calendar year.

**Debt Per Capita** – total outstanding debt divided by the population of the City.

**Debt Ratio** – a measure used that determines the annual debt service or outstanding debt as a percentage of some other item which is generally an indication of the ability of the City to repay the debt; examples include annual debt service as a percentage of total annual expenditures and total outstanding debt as a percentage of total assessed value.

**Debt Service** – the payment of interest and principal to holders of the City's debt instruments.

**E-911 Tax** – this is a tax on telephone usage to pay for fire and police emergency dispatch operations.

**Economic Development Authority (EDA)** – responsible for encouraging industrial and commercial development in the City.

**EMS** – emergency medical services.

**EMT** – emergency medical technician.

**Encumbrance** – a reservation of funds that represents a legal commitment, often established through contract, to pay for future goods or services.

**Enterprise Funds** – account for the financing of services to the general public whereby all or most of the operating expenses involved are recorded in the form of charges to users of such services. The enterprise funds consist of the Sewer Utility Fund, the Water Utility Fund and the Transit Fund (although transit is not formally recognized as an enterprise fund).

**Expenditure** – actual outlay of monies for goods or services.

**Expenses** – expenditures and encumbrances for goods and services.

**Fair Market Sales** – defined as an “arm's length” transaction where there is a willing buyer and a willing seller, neither of which is under pressure to sell or buy. This excludes transfers such as sales within a family, foreclosures, or sales to a governmental unit.

**Fastran** – name of paratransit service.

**FHS** – Fairfax High School.

**Fringe Benefits** – the employer contributions paid by the City as part of the conditions of employment. Examples include health insurance, state public employees retirement system and the City retirement system.

**Full-Time Equivalent (FTE)** – a measure for determining personnel staffing, computed by equating 2,080 hours of work per year (2,912 for firefighters) with one full-time equivalent position.

**Fund** – an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives.

**Fund Balance** – the excess of an entity's assets over its liabilities also known as excess revenues over expenditures. A negative fund balance is sometimes called a deficit.

**GASB** – Governmental Accounting Standards Board – an organization that provides the ultimate authoritative accounting and financial reporting standards for state and local governments.

**General Obligation Bond** – a bond for which the full faith and credit of the City is pledged for payment.

**Historic Fairfax City, Inc. (HFCI)** -- a nonprofit in the City whose purpose is to promote and preserve historic properties in the City of Fairfax. They also promote public awareness and appreciation of the history of the City of Fairfax.

**Industrial Development Authority (IDA)** – responsible for encouraging industrial and commercial development in the City.

**Infrastructure** – public systems and facilities, including water and sewer systems, roads, bridges, public transportation systems, schools and other utility systems.

**Internal Service Charges** – charges to City departments for assigned vehicle repairs and maintenance provided by the fleet maintenance division.

**IT** – information technology.

**Median Household Income** – median denotes the middle value in a set of values, in this case, household income.

**MGD** – million gallons per day.

**MIS Services** – management information services generally referring to information technology products and services.

**MISS UTILITY** – an organization that tracks utilities so that, in accordance with the Underground Utility Protection Law, anybody who wants to dig in the ground for any purpose can determine where utilities are located.

**Modified Accrual Basis of Accounting** – basis of accounting according to which revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which are recognized when due.

**Non-Departmental Accounts** – accounts used to record expenditures that cannot or have not been allocated to individual departments.

**NVTC** – Northern Virginia Transportation Commission.

**Object** – as used in expenditure classification, this term applies to the type of item purchased or the service obtained (as distinguished from the results obtained from expenditures). Examples are personnel services, contractual services and materials and supplies.

**Old Town Service District** – the area defined as Old Town Fairfax; the service district was established to provide revenues, through a special assessment, to help fund costs related to the Old Town Fairfax development projects.

**Performance Measure** – an indicator of the attainment of an objective; it is a specific quantitative measure of work performed or services provided within an activity or program, or it may be a quantitative measure of results obtained through a program or activity.

**Personal Property Tax (PP)** – a City tax levied on motor vehicles and boats based on published listings of values, and on machinery and tools based on a percentage of cost.

**Proposed Budget** – the operating and capital budgets submitted to the City Council by the City Manager.

**Proprietary Fund** – a fund that accounts for operations that are financed in a manner similar to private business enterprise; consists of enterprise funds.

**Public Service Corporation (PSC)** – an entity defined by the Commonwealth of Virginia as providing utilities to residents and businesses; includes power companies, phone companies, gas companies, and other similar type organizations.

**Real Estate Tax (R/E)** – a tax levied by the City Council on real property in the City of Fairfax; real property is defined as land and improvements on the land (buildings).

**Reserve** – an account used to indicate that a portion of fund equity is legally restricted.

**Residential Renaissance Program** – a set of programs run by the Renaissance Housing Corporation, a non-profit organization in the City, to assist homeowners in improving and upgrading their houses; currently taking applications for a residential home improvement loan whereby the Renaissance Housing Corporation will buy down the first two years of interest on home improvement loans for those meeting established criteria.

**Revenue** – the income received by the City in support of a program of services to the community; includes such items as property taxes, fees, user charges, grants, fines and forfeitures, interest income and miscellaneous revenue.

**Revenue Estimate** – a formal estimate of how much revenue will be earned from a specific revenue source for some future period – typically a future fiscal year.

**ROW** – right-of-way.

**Salaries** – the amounts paid for personal services rendered by employees in accordance with rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime and temporary help.

**SUP** – special use permit as in zoning.

**Supplies and Material** – the expenditure classification used in the budget to cover office and operating supplies, construction materials, chemicals, fuels, and repair parts.

**Tax Rate** – the amount of tax levied for each \$100 of assessed value.

**TEIF Grant** – Transportation Efficiency and Improvement Fund.

**Transient Occupancy or Lodging Tax** – tax on stays at hotels and motels of less than 30 days duration.

**UCR based reporting** – Uniform Crime Reporting; move is toward incident based reporting (IBR).

**User Fees** – the payment of a fee for direct receipt of a public service by the person benefiting from the service.

**VML** – Virginia Municipal League – a nonprofit association of city, town and county officials that provides member services to Virginia local governments.

**WMATA** – Washington Metropolitan Area Transit Authority, the regional agency that operates the METRO bus and subway systems expenditures.